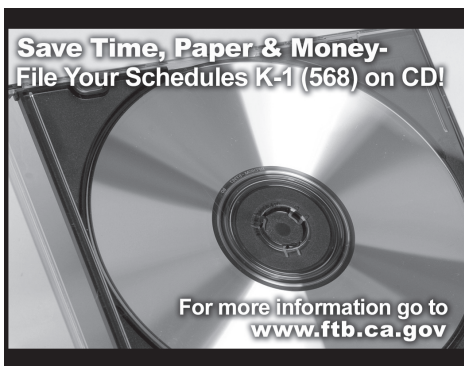


PLACE ADDRESS
LABEL HERE



File 568 K-1s via CD or Diskette.
Put up to 300,000+ K-1s on CD or
12,000 K-1s on a diskette.



2006

Limited Liability Company Tax Booklet

Members of the Franchise Tax Board

Steve Westly, Chair

John Chiang, Member

Michael C. Genest, Member

This booklet contains:

Form 568, Limited Liability Company Return of Income

FTB 3537, Automatic Extension for LLCs

FTB 3522, LLC Tax Voucher

FTB 3832, Limited Liability Company Nonresident Members' Consent

FTB 3885L, Depreciation and Amortization

Schedule D (568), Capital Gain or Loss

Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc.



See page 2



STATE OF CALIFORNIA
FRANCHISE TAX BOARD

2006 Instructions for Form 568, Limited Liability Company Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

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What's New

e-filing – Beginning January 2007, Franchise Tax Board (FTB) will offer e-filing for limited liability companies filing a Form 568, Limited Liability Company Return of Income, and certain accompanying forms and schedules. Check with the software provider to see if the limited liability company can e-file.

For taxable years beginning on or after January 1, 2006, the Internal Revenue Service (IRS) requires certain LLCs to complete Schedule M-3 (Form 1068), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income per Return. For California purposes, the LLCs must still complete the California Schedule M-1, and:

- Attach a copy of the Schedule M-3 (Form 1065) and related attachments to the Limited Liability Company Return of Income; or
- Attach a complete copy of the federal return; or
- FTB will accept the Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

Limited Partnership Act of 2008

For taxable years beginning January 1, 2008, limited partnerships will have the election to operate under the existing statute, or the newest version of the Uniform Limited Partnership Act of 2008. Provisions of the act are mandatory for limited partnerships formed on or after January 1, 2008. The Uniform Limited Partnership of 2008 requires all limited partnerships in existence before January 1, 2008, to comply with and be subject to the provisions of the new Act by January 1, 2010. The provision also prohibits the formation of a limited liability limited partnership (LLLP) in this state.

Nonresident Group Returns

For taxable years beginning on or after January 1, 2006, a corporation may file a group nonresident return on behalf of certain electing nonresident individuals who receive wages, salaries, fees, or other compensation from that corporation for director services performed in California, including attendance of board of directors' meetings in California.

Conformity

For updates regarding the following federal acts, go to our Website at www.ftb.ca.gov and search for **conformity**.

- Tax Increase Prevention and Reconciliation Act of 2005
- Federal Energy Policy Act of 2005
- Pension Protection Act of 2006

Withholding on California Real Estate

For transactions occurring on or after January 1, 2007 that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 percent of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the Franchise Tax Board. For real estate installment sales, if a buyer receives seller's certification as to an alternative withholding election, the buyer would be required to withhold either the full alternative withholding amount at the time of sale or an alternative withholding percentage on the amount of each installment payment.

LLC Dissolving or Cancelling/Tax Clearance Certificate Process

For taxable years beginning on or after January 1, 2006, LLCs will not be required to obtain a Tax Clearance Certificate prior to the dissolution or cancellation of the LLC. For more information, see General Information Q, Cancelling a Limited Liability Company.

Northern California Rainstorms and Related Events

For tax treatment information for victims of the northern California severe rainstorms and related events that occurred December 2005 to January 2006, and March 2006 to April 2006, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

San Bernardino Wildfires

For tax treatment information for victims of the San Bernardino wildfires that occurred July 2006, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

Employer Child Care Program Credit and the Employer Child Care Contribution Credit

The Employer Child Care Program Credit and the Employer Child Care Contribution Credit has been extended to taxable years beginning before January 1, 2012.

The California Community Development Financial Institution Tax Credit (CDFI)

The CDFI Credit has been extended to taxable years beginning before January 1, 2012.

General Information

A Important Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, go to our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for

California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the R&TC in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Environmental Tax Credit – For taxable years beginning on or after July 1, 2005, California allows an environmental tax credit in an amount equal to five cents (\$.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in California. The aggregate credit cannot exceed 25% of the qualified capital costs incurred by the small refiner with respect to that facility, reduced by the aggregate credits determined for all prior taxable years with respect to that facility. See form FTB 3511, Environmental Tax Credit, for more information.

Business Entity name and Identification number

In order to expedite processing, be sure to use the business entity name as it appears with the Secretary of State (SOS) and a valid California identification.

Katrina Tax Relief Act

For information related to Hurricane Katrina, go to our Website at www.ftb.ca.gov and search for **disaster**.

California Use Tax

If your LLC made purchases from out-of-state sellers and owes California use tax, the LLC may report and pay the tax on its Limited Liability Company Return of Income. See page 9, Additional Information, "California Use Tax" for more information.

California Tax Information on the Internet

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Federal Tax Information on the Internet

The IRS has federal forms and publications available to download, view, and print. The IRS's Website is www.irs.gov.

State Agencies' Websites

Access other state agencies' Websites through the State Agency Index on California's Website at www.ca.gov.

Joint Agency Website

For additional business tax information, visit the California Taxes Information Center Website, sponsored by the BOE, Employment Development Department (EDD), FTB, and IRS. The Joint Agency Website is located at www.taxes.ca.gov.

Providing California and Federal Returns

The FTB may request a copy of California or federal returns that are subject to or related to a federal examination. Generally, the California statute of limitations is four years from the due date of the return or from the date filed, whichever is later. However, the statute is extended in situations in which an individual or a business entity is under examination by the IRS. For additional information concerning the extended statute of limitations, due

to a federal examination, see General Information J, Amended Return.

The FTB recommends keeping copies of returns and records that verify income, deductions, adjustments, or credits reported, for at least the minimum time required under the statute of limitations. However, some records should be kept much longer. For example, members should keep records substantiating their basis in a LLC and LLCs should keep records to figure the basis of its assets.

Substitute Schedule K-1 (568)

The FTB recommends filing **paperless** substitute Schedules K-1 (568), Member's Share of Income, Deductions, Credits, etc. Since software is most often used to prepare Form 568 and Schedules K-1 (568), you may already have the information needed to prepare paperless Schedules K-1 (568). Once the information is in a database or spreadsheet, it's easy to transfer to the required record layout and then save it to a CD or diskette.

Get approval from the FTB to use substitute Schedules K-1 (568), if the LLC:

- Wants to use paperless Schedules K-1 (568);
- Does not use the official California Schedule K-1 (568) prepared by the FTB; or
- Does not use a software program with an FTB-approved Schedule K-1 (568).

Note: The FTB does not accept the federal Schedules K-1 (1065) as a substitute schedule.

For more information, see General Information T, Substitute Schedules.

Federal/State Differences

For LLCs classified as partnerships, California tax law generally conforms to federal tax law in the area of partnerships (IRC, Subchapter K – Partners and Partnerships). However, there are some differences:

- An \$800 annual tax is generally imposed on limited partnerships (LPs), LLCs, limited liability partnerships (LLPs), and real estate mortgage investment conduits (REMICs) that are partnerships or classified as partnerships for tax purposes.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- Deductions for taxes paid to other states are not allowed.
- California follows federal law by requiring partnerships to use a required tax year. However, California does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California law modifies the federal definitions for unrealized receivables and substantially appreciated inventory items.
- California does not conform to the electing large partnership provisions.
- Partnerships can electronically file their California partnership returns. Also, partnerships can file Schedules K-1 (568) via CD or diskette – (See General Information T, Substitute Schedules, for more information.)
- California has not conformed to the provisions relating to the Tax Equity and Fiscal Responsibility Act (TEFRA).

- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

Note: This list is not intended to be all-inclusive of the federal and state differences. For additional information, please consult California's R&TC.

Conversion to a Limited Liability Company (LLC)

A partnership (or other business entity) that converts to an LLC during the year must file two California returns. Even if the partners/members and the business operations remain the same, the partnership should file Form 565, Partnership Return of Income, (or the appropriate form) for the beginning of the year to the date of change. For the remainder of the year, the newly converted LLC must file Form 568, Limited Liability Company Return of Income. See General Information I, Accounting Periods, for further instructions.

Tax Shelter

If the LLC was involved in a reportable transaction, including a listed transaction, the partnership may have a disclosure requirement. Attach the federal Form 8886 to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of the federal Form 8886 to the address below. The FTB may impose penalties if the LLC fails to file federal Form 8886, or any other required information.

TAX SHELTER FILING MS F385
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-1673

The LLC must still file federal Form 8271, Investor Reporting of Tax Shelter Registration Number, with their California tax return that claims or reports any income or deduction, loss, credit, or other tax benefit from a registration-required tax shelter. For more information, see federal Form 8271 Instructions, IRS Notice 2004-80 (2004-50 I.R.B. 963), or go to our Website at www.ftb.ca.gov and search for **tax shelters**.

Claim of Right – If the LLC had to repay an amount that was included in income in an earlier year, under a claim of right, the LLC may be able to deduct the amount repaid from its income for the year in which it was repaid. Or, if the amount the LLC repaid is more than \$3,000, the LLC may be able to take a credit against its tax for the year in which it was repaid. For more information, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income.

Punitive Damage Awards – For court actions filed after August 16, 2004, and the final determination rendered by June 30, 2006, the tax treatment of punitive damages differs between federal and State. For California purposes, the amount of punitive damages paid to the director of the Department of Finance shall be excluded from income and the attorney fees associated with the amount paid are not deductible.

B Introduction

The Beverly-Killea Limited Liability Company Act of 1994 (SB 469; Stats.1994, Ch. 1200) authorized the formation of LLCs in California and recognized out-of-state LLCs doing business in California. LLCs combine traditional corporate and partnership characteristics. LLC members are afforded:

- Limited liability with the extent of a member's liability limited to the member's equity investment;
- Flexible management alternatives; and
- Liberal membership qualification requirements.

LLCs classified as partnerships, for tax purposes, generally will determine their California income, deductions, and credits under the Personal Income Tax Law. They will be subject to an annual tax (due on the 15th day of the 4th month of the LLC's taxable year) as well as the LLC fee based on total income. See General Information F, Limited Liability Company Tax and Fee, for more information.

LLCs organized in California are vested with all the rights and powers enjoyed by a natural person in carrying out business affairs. California law, however, does not allow the formation or registration of LLCs (foreign or domestic) in California to render any type of professional service for which a license, certification, or registration is required under the Business and Professions Code or the Chiropractic Act, with the exception of insurance agents and insurance brokers.

California law requires LLCs not organized in the state of California to register with the California Secretary of State (SOS) before entering into any intrastate business in California. The laws of the state or foreign country in which the LLC is organized generally govern the internal affairs of the LLC. The SOS may not deny recognition of an LLC because the laws of the organization's home state or foreign country differ from California's laws, except in the case of professional service LLCs, which are not allowed to register as LLCs in California.

For more information about organizing and registering an LLC, contact:

LIMITED LIABILITY COMPANIES
CALIFORNIA SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280
Telephone: (916) 653-3795

or contact the SOS on their Website at www.ss.ca.gov.

C Purpose

Use Form 568:

- To determine the amount of the LLC fee (including a disregarded entity's fee) based on total income;
- To pay the LLC fee;
- To report the annual tax;
- To pay any nonconsenting nonresident members' tax; and
- To report income, deductions, gains, losses, etc., from the operation of a multiple member LLC that has elected to be classified as a partnership. Form 568 is the return for calendar year 2006 or any fiscal year beginning in 2006.

D Who Must File

An LLC may be classified for tax purposes as a partnership, a corporation, or a disregarded entity. The LLC should file the appropriate California return.

Form 568 must be filed by every LLC that is:

- Doing business in California;
- Organized in California;

- Organized in another state or foreign country, but registered with the SOS;
- Has income from California sources; or
- Nonregistered foreign LLCs that are members of an LLC doing business in California or general partners in a limited partnership doing business in California are considered doing business in California.

Exceptions to filing Form 568:

- The LLC elected to be taxed as a corporation for federal tax purposes.
- The LLC is a single member limited liability company (SMLLC) that was treated as an association taxable as a corporation prior to January 1, 1997, for California tax purposes, and did not elect to change that tax treatment in the current taxable year.
- Nonregistered foreign LLCs that are not doing business, but are deriving income from California or filing to report an election on behalf of a California resident, file Form 565.
- LLCs classified as a general corporation file Form 100, California Corporation Franchise or Income Tax Return. LLCs classified as an S corporation file Form 100S, California S Corporation Franchise or Income Tax Return. For LLCs classified as disregarded entities, see General Information S, Check-the-Box Regulations.

Example: A husband and wife that own 100% of an LLC as community property that is not treated as a corporation may elect for the LLC to be either a disregarded entity or a partnership for tax purposes.

LLCs organized under the laws of another state or foreign country are required to register with the SOS before entering into intrastate business in California.

If the LLC is registered in California, but:

- Is not doing business in California; and
- Does not have California source income,

the LLC is still required to file Form 568. The LLC's filing requirement will be satisfied by:

1. Completing Form 568 with all supplemental schedules;
2. Completing and attaching California Schedules K-1 (568) for members with California addresses;
3. Writing "SB 1106 Filing" in red at the top of Form 568, Side 1; and
4. Entering the total number of members in Question J on Side 1 of the Form 568.

Regardless of where the trade or business of the LLC is primarily conducted, an LLC is considered to be doing business in California if any of its members, managers, or other agents are conducting business in California on behalf of the LLC. For additional information get FTB Pub. 1063, California Corporation Tax Law – A Guide for Corporations.

An LLC that is an electing large partnership for federal purposes and uses the federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 568. California law does not conform to the federal electing large partnership provisions.

Certain publicly traded partnerships treated as corporations under IRC Section 7704 must file Form 100.

A resident member of an out-of-state LLC taxed as a partnership not required to file Form 568, may be required to furnish a copy of federal Form 1065, U.S. Partnership Return of Income, to substantiate the member's share of LLC income or loss.

E When and Where to File

An LLC must file Form 568, pay the LLC fee, and any nonconsenting members' tax by the 15th day of the 4th month (fiscal year) or April 16, 2007 (calendar year), following the close of its taxable year.

Mail Form 568 **with** payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0601

Make the check or money order payable to the "Franchise Tax Board." Write the LLC's federal employer identification number (FEIN), SOS file number, and "2006 Form 568" on the check or money order. (**Note:** SOS file number must begin with "19" or "20.")

Note: Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

Mail Form 568 **without** payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

Extensions

California does not require the filing of written extensions. If the LLC cannot file its Form 568 by the return's due date, the LLC is granted an automatic six month extension.

However, the automatic extension does not extend the time to pay the LLC fee or nonconsenting nonresident members' tax.

If the LLC is filing the return under extension, see form FTB 3537, Automatic Extension for LLCs, included in this booklet, to submit the required payments.

Penalty: To avoid late payment penalties for use tax, the limited liability company must report and pay the use tax with a **timely** filed franchise or income tax return.

Annual Limited Liability Company Tax

If the 2006 annual tax of \$800 was not paid on or before the 15th day of the 4th month after the beginning of the taxable year (fiscal year) or April 16, 2007 (calendar year), the tax should be sent using the 2006 form FTB 3522, LLC Tax Voucher. (Do not use the 2007 form FTB 3522 included in this booklet.)

Also see General Information G, Penalties and Interest, for the additional amount that is now due. To assure proper application of the tax payment to the LLC account, **do not** send the \$800 annual tax with Form 568.

Note: The 2007 \$800 annual tax is due on or before the 15th day of the 4th month after the **beginning** of the 2007 taxable year (fiscal year) or April 16, 2007 (calendar year). The payment is sent with form FTB 3522. Do not mail the \$800 annual tax with Form 568. **When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.**

Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See the instructions for federal Form 1065 for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Caution: Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO Box.

F Limited Liability Company Tax and Fee

Effective for taxable years beginning on or after January 1, 2003, the definition of "limited liability company" has been revised to exclude certain title holding companies that are tax exempt provided that they are treated as partnerships or disregarded entities for tax purposes. As such they are not liable for the Annual LLC tax and fees.

If a series LLC, for example a Delaware Series LLC, registers to do business or conducts business in California, (1) the holders of interests in each series are limited to the assets of that series upon redemption, liquidation, or termination, and may share in the income only of that series; and (2) under state law, the payment of the expenses, charges, and liabilities of each series is limited to assets of that series, then each series in a series LLC is considered a separate LLC and must file its own Form 568, Limited Liability Company Return of Income and pay its own separate LLC annual tax and fee if it is registered or doing business in California

Annual Limited Liability Company Tax

LLCs are subject to an \$800 annual tax if they are doing business in California or have articles of organization accepted, or a certificate of registration issued by the SOS. The annual tax is prepaid for the privilege of doing business in California, and is due and payable on or before the 15th day of the 4th month after the **beginning** of the taxable year. The annual tax must be paid for each taxable year until the appropriate papers are filed. See General Information Q, Cancelling a Limited Liability Company, for more information.

Use form FTB 3522 to submit the \$800 annual tax payment. Make the check or money order payable to the "Franchise Tax Board." Write the LLC's FEIN, SOS file number, and "2007 FTB 3522" on the check or money order.

If the 15th day of the 4th month of an existing foreign LLC's taxable year has passed before the existing foreign LLC commences business in California or registers with the SOS, the annual tax should be paid immediately after commencing business or registering with the SOS.

Limited Liability Company Fee

In addition to the annual tax, every LLC must pay a fee based on total annual income. The LLC fee is due on or before the 15th day of the 4th month after the **close** of the LLC's taxable year. For taxable years beginning on or after January 1, 2006, use the following chart to compute the fee:

If total annual income from Form 568, Side 1, line 1 is:		The fee is:
equal to or over –	but not over –	
\$ 250,000	\$ 499,999	\$ 900
500,000	999,999	2,500
1,000,000	4,999,999	6,000
5,000,000	and over	11,790

To determine the LLC fee see the Specific Line Instructions for line 1.

If the FTB determines multiple LLCs were formed for the primary purpose of reducing fees, the LLC's total income from all sources that are reportable to California could include the aggregate total income of all commonly controlled LLC members. "Commonly controlled" means control of more than 50% of the capital interests or profit interests of the taxpayer and any other LLC or partnership by the same persons.

Nonconsenting Nonresident Members' Tax

Every nonresident member must sign a form FTB 3832, Limited Liability Company Nonresident Members' Consent. The LLC returns the signed form with Form 568. If a nonresident member fails to sign form FTB 3832, the LLC is required to pay tax on that member's distributive share of income at the highest marginal rate. Any amount paid by the LLC will be considered a payment made by the nonresident member.

For taxable years beginning on or after January 1, 2005, the tax may be reduced by the amount of tax previously withheld and paid by the limited liability company with respect to each nonconsenting, nonresident member.

Reminder: All nonresident members must file a California tax return. The completion of form FTB 3832 does not satisfy the nonresident member's California filing requirement. Corporate members are also considered doing business in California and may have additional filing requirements. For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California. Nonresident individuals may qualify to file a group Form 540NR and should get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

If the LLC's return is being filed on or before the 15th day of the 4th month (fiscal year) or April 16, 2007 (calendar year), the LLC completes the Schedule T. See Specific Line Instructions for Schedule T in this booklet for further information.

If the LLC owes a tax and/or fee and is unable to complete Form 568 on or before the original due date, it must complete form FTB 3537. However, the nonconsenting nonresident members' tax along with the voucher must be received on or before the 15th day of the 4th month (fiscal year) or April 16, 2007 (calendar year), after the close of the taxable year. Failure to do so causes penalties and interest to be assessed. See the instructions for form FTB 3537 included in this booklet.

G Penalties and Interest

Failure to Comply with Filing Requirements

A penalty is assessed if the LLC is required to file a Form 568 and it:

- Fails to file the return on time, including extensions; or
- Files a return, including Schedules K-1 (568), that fails to show all the information required.

The amount of the penalty for each month, or part of a month (for a maximum of five months), that the failure continues, is \$10 multiplied by the total number of members in the LLC during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date the notice of tax due is mailed until the date the return is filed.

For "small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns does not apply for California purposes. For more information see R&TC Section 19172.

Failure to File a Timely Return

Any LLC that fails to file Form 568 on or before the extended due date is assessed a penalty. The penalty is 5% of the unpaid tax (which includes the LLC fee and nonconsenting nonresident members' tax) for each month, or part of the month, the return remains unfiled from the due date of the return until filed. The penalty may not exceed 25% of the unpaid tax. If an LLC does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return, see R&TC Section 19131.

Failure to Pay by the Due Date

The failure-to-pay penalty is imposed from the due date of the return or the due date of the payment. Since the LLC fee and the nonconsenting nonresident members' tax are due with the return, the penalty is calculated from the 15th day of the 4th month after the close of the taxable year. The annual tax payment date is the 15th day of the 4th month during the taxable year, so the penalty is calculated from this date. The penalty for each item is calculated separately.

The failure-to-pay penalty begins at 5%. Every month or fraction thereof the amount is not paid the penalty increases .5%. The penalty continues to increase for 40 months, thereby maximizing at 25%, see R&TC Section 19132.

Note: If an LLC is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be assessed, but the total penalty may not exceed 25% of the unpaid tax. However, the penalty for failure to comply with the filing requirements will be assessed in addition to the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date. The late payment penalty may be waived where 90% of the tax shown on the return is paid by the original due date of the return, but not less than the annual tax.

Interest

Interest is due and payable on any tax due if not paid by the original due date. Interest is also due on some penalties. The automatic extension of time to file does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Business Entity Refund/Billing Information, for more information.

Other Penalties/Fees

A penalty may also be charged if a check is returned for insufficient funds. In addition, fees may be charged for the cost of collection.

H Accounting Methods

Compute ordinary income or loss by the accounting method regularly used to maintain

the LLC's books and records. This method must clearly reflect the LLC's income or loss.

LLCs given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required by changes in accounting method.

Generally, an LLC may not use the cash method of accounting if the LLC has a corporate member, averages annual gross receipts of more than \$5 million, or is a tax shelter. For exceptions, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year.

Rounding to Whole-Dollar Amounts

Whole dollar amounts should be shown on the return and accompanying schedules. To round, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next whole dollar.

I Accounting Periods

LLC returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the LLC is created or terminated within the taxable year. In that case, write "Short Period" in red ink at the top of Form 568, Side 1.

For information on the required taxable year of a partnership that also applies to LLCs, see the instructions for federal Form 1065.

J Amended Return

If, after the LLC files its return, it becomes aware of changes it must make, the LLC should file an amended Form 568 and an amended Schedule K-1 (568) for each member, if applicable. Check the amended return box in Item I(3) Form 568, Side 1. Give a corrected Schedule K-1 (568) with box G(2) checked and label "Amended" to each affected member. If the LLC originally filed a Form 540NR group nonresident member return, the LLC should file an amended Form 540NR.

Note: If the LLC wishes to file amended Schedules K-1 (568) via CD or diskette, see General Information T, Substitute Schedules.

If the LLC's federal return is changed for any reason, the federal change may affect the LLC's California return. This would include changes made because of an examination. The LLC must file an amended return within six months of the final federal determination if the fee the LLC or tax a member owes has been affected. The LLC should attach a copy of the federal Revenue Agent's Report or other notice of the adjustments to the return. The LLC should inform the members that they may also be required to file amended returns within six months from the date of the final federal determination.

K Required Information Returns

Every LLC must file information returns if, in the course of its trade or business, it:

- Makes payments to one person of rents, salaries, wages, annuities, or other fixed or determinable income during one calendar year totaling \$600 or more;

- Pays an individual or one payee interest and dividends totaling \$10 or more during one calendar year; and
- Receives cash payments over \$10,000.

Payments of any amount by a broker, dealer, or barter exchange agent must also be reported. Get FTB Pub. 4227A, Guide to Information Returns Filed With California, for more information.

LLCs must report payments made to California residents by providing copies of federal Form 1099 (series). For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return; Form 592-A, Nonresident Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement.

LLCs must submit a copy of federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

LLCs must report interest paid on municipal bonds that are issued by a state other than California or a municipality other than a California municipality that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments aggregating \$10 or more paid after January 1, 2006. Information returns will be due June 1, 2007. Go to our Website at www.ftb.ca.gov and search for **form FTB 4800**, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

LLCs must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts. If you are filing form FTB 3834 to compute the interest due or to be refunded under the Look-Back method, attach a copy of form FTB 3834 to Form 568.

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to the Form 568 when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

All information returns, unless otherwise noted, are mailed separately from the Form 568. Information returns should be sent to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

L Special Items

California LLC tax law generally follows federal partnership tax law for LLCs classified as partnerships, in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory;
- Members' dealings with the LLC;
- Contributions to the LLC;
- Income of foreign nonresident members subject to withholding, Form 592, Form 592-A, and Form 592-B;
- Basis and at-risk rules;
- Passive activity limitations;

- Net operating loss deduction by a member of the LLC (an LLC is not allowed the deduction);
- Publicly traded partnerships;
- Long-term contracts;
- Installment sales;
- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by an LLC; and
- Recognition of precontribution gain in certain LLC distributions to members.

See the instructions for federal Form 1065 for specific information about these areas.

M Signatures

Form 568 is not considered a valid return unless it is signed by an authorized member or manager of the LLC. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that individual must sign the return.

Paid Preparer's Information

Anyone who is paid to prepare the LLC return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must:

- Complete the required preparer information;
- Sign in the space provided for the preparer's signature; and
- Give the LLC a copy of the return in addition to the copy to be filed with the FTB.

An individual who prepares the return and does not charge the LLC should not sign the LLC return.

N Group Returns

Nonresident members of an LLC doing business or deriving income from sources in California may elect to file a group nonresident return (R&TC Section 18535). Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

O Investment Partnerships

Income of nonresident members, including banks or corporations, derived from "qualifying investment securities" of an LLC that qualifies as an "investment partnership" is considered income from sources other than California, except as noted below. Therefore, nonresident individuals or foreign members generally will not be taxed on this income. The LLC should inform its nonresident individuals or foreign members if all or a portion of their distributive share of income is from "qualifying investment securities" of an "investment partnership" and whether it is sourced to California. See the instructions for Question K on page 10 of this booklet for definitions of "investment partnership" and "qualifying investment securities."

However, for apportioning purposes income from an LLC that is an investment partnership (LLC investment partnership) is generally considered business income (see Appeal of Estate of Marion Markus, Cal. St. Bd. of Equal., May 6, 1986). LLC investment partnerships that are doing business within and outside California should apportion California source income using California Schedule R, Apportionment and Allocation of Income. LLC investment partnerships that are doing business solely within California should treat all business income of the LLC investment partnership as California source income.

LLC investment partnerships that have California source income should show on Schedule K-1 (568), column (e) each member's distributive share of California source income.

Generally, members who are nonresident individuals would not record this income as California source income. However, there are two exceptions to the general rule when a nonresident individual may have California source income from an LLC investment partnership. Nonresident individual members will be taxed on their distributive shares of income from the "LLC investment partnership" if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident member; or
- Any other entity in which the nonresident member owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

Nonresident individual members will be taxed on their distributive share of investment income from an LLC investment partnership if the qualifying securities were purchased with working capital of a trade or business the nonresident owns an interest in and that is conducted in California (R&TC Section 17955).

Corporations that are members in an LLC investment partnership are not generally taxed on their distributive share of LLC income, provided that the income from the LLC is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the LLC investment partnership; or
- Has income derived from or attributable to sources within this state other than income from the LLC investment partnership,

then the corporation will be taxed on its distributive share of California source income from the LLC.

P Nonresident Members

An LLC with multiple members is required to file form FTB 3832 with Form 568 when one or more of its members is a nonresident of California. Form FTB 3832 is signed by the nonresident individuals and foreign entity members to show their consent to California's jurisdiction to tax their distributive share of income attributable to California sources.

Form FTB 3832 is required to be filed:

- For the first taxable period for which the LLC became subject to tax; and
- For any taxable period in which the LLC had a nonresident member not previously listed on form FTB 3832.

Separate forms for an individual (or groups of individuals) are permissible. The LLC must maintain and have available for examination a form FTB 3832 signed by each nonresident member.

The LLC must pay the tax for every nonresident member that did not sign a form FTB 3832. The LLC is responsible for paying the tax on that nonresident member's distributive share of income determined at the highest marginal rate for that member. See General Information F, Limited Liability Company Tax and Fee, for more information.

For taxable years beginning on or after January 1, 2005, the tax may be reduced by the amount of tax previously withheld and paid by the

limited liability company with respect to each nonconsenting, nonresident member.

If the LLC fails to timely pay the tax of such nonresident member, the LLC shall be subject to penalties and interest (R&TC Sections 19132 and 19101). Any amount paid by the LLC on behalf of a nonresident individual or foreign entity member will be considered a payment made by the member.

An LLC may recover from the nonresident member the tax it paid on behalf of the nonresident member.

To claim credit for the tax, the nonresident member needs to attach a copy of the Schedule K-1 (568) to their California income tax return.

Nonresidents or Part-Year Residents

For taxable years beginning on or after January 1, 2002, California law was changed to clarify the method used to calculate loss carryovers, deferred deductions, and deferred income for nonresident and part-year resident taxpayers. This new law changed the tax computation to recognize those items, and established a new method to determine percentages for computing tax for all nonresidents and part-year residents. The nonresident tax forms (Long and Short Form 540NR) have been revised to more clearly show that nonresidents pay tax to California only on their California taxable income. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

CAUTION: The requirements and procedures discussed above are not related to the nonresident withholding requirements discussed under General Information R, Withholding Requirements.

Q Cancelling a Limited Liability Company

In general, LLCs are required to pay the \$800 annual tax and file a California return until the appropriate papers are filed. In order to cancel an LLC, the following steps must be taken:

1. File a [Form LLC-4/7](#), Certificate of Cancellation, with the SOS. The SOS also requires a domestic LLC to file a [Form LLC-3](#), Certificate of Dissolution. Please contact the SOS for more details;
2. Pay the \$800 annual tax to the FTB only if the tax return is not timely filed (using form FTB 3522); and
3. File a final California LLC return (Form 568) with the FTB.

Note: The Form LLC-4/7's effective date will stop the assessment of the \$800 annual tax for future tax years. If Form LLC-4/7 is filed after the tax year ending date, a subsequent year return and an additional \$800 tax will be required.

For taxable years beginning on or after January 1, 2006, the Annual Tax will not be assessed if the LLC meets the following requirements:

- The LLC files a timely **Final** Limited Liability Company Return of Income for the preceding taxable year, including extension,
- The LLC did not do business in California after the final taxable year, and
- The LLC files the appropriate documents for dissolution with the SOS within 12 months of the timely filed Final Limited Liability Company Return of Income.

Short Form Cancellation

Beginning January 1, 2005, domestic LLCs organized in California on or after January 1, 2004, a domestic can file a Limited Liability Company Short Form Certificate of Cancellation (Form LLC-4/8) if the following requirements are met:

- Form LLC-4/8 is being filed within twelve (12) months from the date the Articles of Organization were filed with the Secretary of State;
- The domestic LLC has no debts or other liabilities (other than tax liability);
- The known assets have been distributed to the persons entitled thereto or no known assets have been acquired;
- The final tax return or a final annual tax return has been or will be filed with the Franchise Tax Board;
- The domestic LLC has not conducted any business from the time of the filing of the Articles of Organization;
- A majority of the managers or members, or if there are no managers or members, the person or a majority of the persons who signed the Articles of Organization, voted to dissolve the domestic LLC; and
- If the domestic LLC received payments for interests from investors, those payments have been returned to those investors.

The LLC must file SOS Form LLC-4/8, Limited Liability Company Short Form Certificate of Cancellation, with SOS that includes a statement that all of the items above have been completed before the SOS will cancel the LLC.

For more information on how to cancel your LLC, contact:

By Mail: LIMITED LIABILITY COMPANIES
CALIFORNIA SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280

In Person: CALIFORNIA SECRETARY OF STATE
1500 11TH STREET SUITE 345
SACRAMENTO CA 95814

Phone Number: (916) 653-3795

Office hours are Monday through Friday, 8 a.m. to 5 p.m.

Website: www.ss.ca.gov

Email address: Partnership@ss.ca.gov

If the LLC is being cancelled to be converted to another type of business entity, be sure to file the appropriate forms with the SOS.

Short Period Return

If the LLC is filing a short period return for 2007, the 2007 forms are not available. The LLC must use the 2006 Form 568 and change the tax year.

R Withholding Requirements

Foreign (non U.S.) Nonresident Members

As described in IRC Section 1446 and modified by R&TC Section 18666, if an LLC has any income or gain from a trade or business within California, and if any portion of that income or gain is allocable under IRC Section 704 to a foreign (non U.S.) nonresident member, the LLC is required to withhold tax on the allocable amount.

State and Federal Differences Regarding

Foreign (non U.S.) Nonresident Members

California generally conforms to IRC Section 1446 and corresponding federal rulings and

procedures. The main differences between California and federal laws in this area are:

- a. The California withholding rate is 8.84% for C corporations and 9.3% for individuals, partnerships, LLCs, and fiduciaries.
- b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18666.

Domestic (U.S.) Nonresident Members

An LLC is required to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic (U.S.) nonresident member (R&TC Section 18662). This includes prior year income that should have been, but was not previously reported as income from California sources on the member's California income tax return. However, withholding is not required if distributions of income from California sources to the member are \$1,500 or less during the calendar year or if the FTB directs the payer not to withhold.

Domestic (U.S.) nonresident members include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident members also include nonresident estates, trusts, partnerships, and LLCs that do not have a permanent place of business in California. Foreign nonresident members covered under R&TC Section 18666 are not domestic nonresident members.

LLCs with income from both within and outside California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to withholding. LLCs are required to withhold tax at a rate of 7% of distributions (including property) of income from California sources made to domestic nonresident members. For more information, get Schedule R.

The FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual, or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly-traded partnerships and on distributions to brokerage firms, tax-exempt organizations, and tiered LLCs.

No withholding of tax is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination the FTB determines that tax withholding was required on a distribution, the LLC may be liable for the amount that should have been withheld and penalties.

Send waiver requests and inquiries to:

WITHHOLDING SERVICES AND COMPLIANCE
SECTION
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0651

Telephone: (888) 792-4900 (U.S. toll-free)
or (916) 845-4900

Withholding payments should be submitted with Forms 592, 592-A, and/or 592-B.

The taxable income of nonresident members is the distributive share of California sourced LLC income, not the distributed amount. For more information, get FTB Pub. 1017, Nonresident Withholding S Corporation and Partnership Guidelines.

Note: The nonresident withholding requirements and procedures discussed above are not related to the nonconsenting nonresident members' tax paid by an LLC on behalf of nonresident members as discussed under General Information P, Nonresident Members.

S Check-the-Box Regulations

California generally conforms to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation, or a single member LLC (SMLLC) (SB 1234; Stats. 1997, Ch. 608).

Generally, any elections made for federal purposes under the federal "check-the-box" regulations are treated as California elections. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California return for the year in which the election is effective. The entity should file the appropriate California return.

An "eligible entity" may choose its classification. An eligible entity is a business entity that is not a trust, a corporation organized under any federal or state statute, a foreign entity specifically listed as a per se corporation, or other special business entities. Other special business entities under the IRC include publicly traded partnerships, REMICs, financial asset securitization investment trusts (FASITs), or regulated investment companies (RICs). An eligible entity with two or more owners will be a partnership for tax purposes unless it elects to be taxed as a corporation. For tax purposes, an eligible entity with a single owner will be disregarded. If the separate existence of an entity is disregarded, its activities are treated as activities of the owner and reported on the appropriate California return. An LLC with a husband and wife as the sole members may be considered an eligible entity with multiple members, or an eligible entity with a single member.

Exceptions

There is an exception to the general rule. The exception exists in the case of an eligible business entity, other than one which, within the 60 month period preceding January 1, 1997:

- Was not doing business in California;
- Did not derive income from sources within California; or
- Had no members who were residents of California;

and that was properly classified as an association taxable as a corporation, see R&TC Section 23038(b)(2)(c).

These entities are generally:

- 1) Business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable years beginning before January 1, 1997; and
- 2) Previously existing foreign SMLLCs that were classified as corporations under California law

but claimed to be partnerships for federal tax purposes for taxable years beginning before January 1, 1997.

These business trusts and previously existing foreign SMLLCs will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, and Cal. Code Regs., tit. 18 sections 23038(a)-(b).

California regulations make the classification of business entities under federal regulations (Treas. Reg. Sections 301.7701 through 301.7701-3) generally applicable to California. If an eligible entity is disregarded for federal tax purposes, it is also disregarded for state tax purposes, except that a SMLLC must still pay a tax and fee, file a return, and limit tax credits.

Filing Requirements for Disregarded Entities

A SMLLC needs to complete Form 568, Side 1, Side 2 and Side 4 (Schedule K), LLC Income worksheet, Schedule B, and pay the annual tax and LLC fee. SMLLCs do not need to complete Schedule K-1 (Form 568). The LLC should have filed by the 15th day of the 4th month of the taxable year. The single owner would include the various items of income, deductions, credits, etc., of the SMLLC on the tax return filed by the owner.

Note: Utilization of credits attributable to the SMLLC is limited to the regular tax liability on the income attributable to the activities of the SMLLC. The limitation on the SMLLC's credits is the difference between: 1) The regular tax liability of the single owner computed with the items of income, deductions, etc., attributable to the SMLLC; and 2) The regular tax liability of the single owner computed without the items of income, deductions, etc., attributable to the SMLLC. It is the responsibility of the single owner to limit the credits on the owner's tax return. The single owner should be prepared to furnish information supporting the use of any credits attributable to the SMLLC.

The owner of the SMLLC should perform the following steps to determine the SMLLC's credit limitation:

- Compute the owner's tax with the SMLLC income, and the owner's tax without the SMLLC income.
- Complete Schedule P (100, 100W, 540, 540NR, or 541), up to the line where the credit is to be taken.
- Determine the credit to be utilized. The amount allowed is the lesser of:
 1. The total credit or the limitation based on the LLC's business income; or
 2. The net tax balance that may be offset by credits on Schedule P (100, 100W, 540, 540NR, or 541) on the line above the line where the credit is to be taken.

The following example shows the credit limit calculation for an SMLLC that is owned by a C corporation. The SMLLC has a Research credit of \$4,000. The computation of the C corporation's regular tax liability with the SMLLC income is \$5,000. The computation of the C corporation's regular tax liability without the SMLLC income is \$3,000. The difference in tax is \$2,000, which is the C corporation's credit limitation on all LLC

credits. The owner of the SMLLC then performs the following steps:

1. Completes Schedule P (100), Side 2, down to line 4, column (c). The amount is \$1,000.
2. Enters the limitation amount from Schedule P (100), Side 2, line 4, column (c) in column (f).
3. Enters the following amounts from the table on this page on the Schedule P (100):
 - \$4,000 from column (d) of the table on this page, to Schedule P (100), Side 2, line 5, column (a);
 - \$1,000 from column (f) of the table on this page, to Schedule P (100), Side 2, line 5, column (b);
 - \$3,000 from column (g) of the table on this page, to Schedule P (100), Side 2, line 5, column (d).

(a) Credit name	(b) Credit amount	(c) Total prior year credit carry- over	(d) Total credit: add col. (b) & col. (c)	(e) Limitation based on LLC business income	(f) Credit used on Sch R, but not greater than col. (d) or col. (e)	(g) Carry col. (d) minus the smaller of col. (e) or col. (f)
Research	\$4,000	0	\$4,000	\$2,000	\$1,000	\$3,000

T Substitute Schedules

LLCs or their tax professional must get approval from the FTB to use a substitute schedule, if the LLC:

- Wants to use **paperless** Schedules K-1 (568);
- Does not use the official California Schedule K-1 (568) prepared by the FTB; or
- Does not use a software product with an FTB-approved Schedule K-1 (568).

If computer software is used, please read the company's user manual to ensure you have the necessary hardware and printer fonts to produce FTB-approved forms. All printing should be done to the standards specified in FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms. For more information, go to our Website and search for **FTB Pub. 1095D**, Tax Practitioner Guidelines for Computer-Prepared Returns at www.ftb.ca.gov.

LLCs are subject to penalties for failure to file the appropriate Schedule K-1 (568). See General Information G, Penalties and Interest.

To participate in the FTB's substitute forms program, get FTB Pub. 1098, and form FTB 1096, Agreement to Comply with FTB Pub. 1098, Annual Requirements.

Paperless Schedule K-1 (568)

For procedures, formatting specifications, and record layouts required to program paperless Schedules K-1 (568) get FTB Pub 1062, Guide for Filing Paperless Schedules K-1 (565 or 568).

The transmittal form FTB 3604 must accompany paperless Schedules K-1 (568) submitted on CD or diskette. Form FTB 3604 is included in FTB Pub. 1062 or in a fillable format on our Website at www.ftb.ca.gov.

K-1 (565 or 568) TestWare is also available at no charge. K-1 (565 or 568) TestWare helps identify and correct errors during programming and before submitting the paperless schedules.

K-1 (565 or 568) TestWare includes two programs:

- K-1 Verify, edits Schedules K-1 (568) records to ensure the fields are the correct length and

- position the FTB requires and produces an edit report; and
- K-1 Convert, converts spreadsheet formats to standard fixed length formats so you can use them with K-1 Verify.

Once verification is made to ensure paperless Schedules K-1 (568) pass the K-1 Verify program, send the schedules to the FTB using form FTB 3604, which contains mailing instructions. Multiple LLCs can be put on the same CD or diskette. It is not necessary to provide a separate CD or diskette for each LLC. However, provide each LLC name, FEIN, and the number of K-1's for that LLC in the space provided on form FTB 3604. If the LLC files paperless Schedules K-1 (568), please file all Schedules K-1 (568) for that LLC using the paperless format. Do not file paper Schedules K-1 (568) with Form 568 if the LLC has or will file paperless Schedules K-1 (568).

Note: Do not file Schedules K-1 (568) on microfiche or file federal Schedules K-1 (1065) with the Form 568.

To get the publications and K-1 (565 or 568) go to our Website at www.ftb.ca.gov and search for **testware**.

Assistance is available from our e-file Help Desk at (916) 845-0353 (not toll-free).

U Property Subject to IRC Section 179 Recapture

Effective for taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in prior years by a partnership, limited liability company, or S corporation.

If a gain from the sale, exchange or disposition for which an IRC Section 179 expense deduction was claimed in a prior year, special rules apply. Members should follow the instructions in federal Form 4797, Sales of Business Property, Part III, line 22.

LLCs should follow the instructions in federal Form 4797 with the exception that the amount of gain on property subject to the IRC Section 179 recapture must be included in the total income for the LLC. Report the gain on property subject to the IRC Section 179 expense deduction recapture on line 17d of the Limited Liability Company Income Worksheet.

Note: The gain on property subject to the IRC Section 179 Recapture should be reported on the Schedule K and Schedule K-1 as supplemental information as instructed on the federal Form 4797.

Worksheet for Computation of Gain or Loss				
	Property A	Property B	Property C	Total
1 Gross Sales Price.				
2 Cost or other basis plus expense of sale (do not reduce the entity's cost in the property by the IRC Section 179 expense deduction).				
3 Depreciation allowed or allowable (including the IRC Section 179 expense deduction)				
4 Adjusted basis. Subtract the amount on line 3 from the amount on line 2.				
5 Total gain. Subtract the amount on line 4 from the amount on line 1. Enter the total gain on the Limited Liability Income Worksheet, Line 17d.				

The LLC must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

1. Description of the property.
2. Date the property was acquired and placed in service.
3. Date the property was sold or other disposition.
4. Gross sales price or amount realized.
5. Cost or other basis plus expense of sale (not including the entity's basis reduction in the property due to IRC Section 179 expense deduction).
6. Depreciation allowed or allowable (not including the IRC Section 179 expense deduction).
7. Amount of IRC Section 179 expense deduction (if any).
8. An indication if the disposition is from a casualty or theft.
9. If this is an installment sale, compute the installment amount by using the method provided in form FTB 3805E, Installment Sale Income. Enter the gain on line 5 of the worksheet.

Based on the information above, compute the gain or loss for the LLC using the following worksheet. Enter the gain on the Limited Liability Company Income Worksheet, line 17d.

Additional Information California Use Tax

General Information

The use tax has been in effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, LLCs must pay California use tax on purchases made from out-of-state (for example, by telephone, over the Internet, by mail, or in person) if:

- The seller does not collect California sales or use tax, and
- The LLC uses, gives away, stores, or consumes the item in this state.

Example: The LLC purchases a conference table from a company in North Carolina. The company ships the table from North Carolina to the LLC's address in California for the LLC's use and does not charge California sales or use tax. The LLC owes use tax on the purchase.

Complete the Use Tax Worksheet on page 11 to calculate the amount due.

Extensions to file. If the LLC requests an extension to file its tax return, wait until the LLC files its tax return to report the purchases subject to use tax and to make the use tax payment.

Penalty. To avoid late payment penalties for use tax, the LLC must report and pay the use tax with a timely filed income tax return.

Changes in use tax reported. Do not file an Amended LLC Return of Income to revise the use tax previously reported. If the LLC has changes to the amount of use tax previously reported on the original income tax return, contact the State Board of Equalization.

For assistance, go to the State Board of Equalization's Website at www.boe.ca.gov or call their Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929. Income tax information is not available at this number.

Specific Instructions

Form 568

Fill In All Applicable Lines and Schedules

Enter any items specially allocated to the members on the appropriate line of the member's Schedule K-1 (568) and the total amount on the line of Schedule K (568). Do not enter these items directly on Form 568, Side 3, or on Schedule A or Schedule D.

Reminder: Whole numbers should be shown on the return and accompanying schedules.

Name, Address, SOS File Number, and FEIN

Filing Form 568 without errors will expedite processing. Before mailing, make sure entries have been made for the:

- SOS file number (10 or 12-digits) (begins with "19" or "20");
- FEIN (9-digits); and
- LLC legal or trade name or doing business as (DBA).

Include the Private Mail Box (PMB) in the address field. Write the acronym "PMB" first, then the box number. Example: 111 Main Street PMB 123.

Item C – Principal Business Activity (PBA) Code

California uses the 6-digit federal PBA Code based on the North American Industry Classification System (NAICS).

Common trust funds are required to use the PBA code 525920. Investment clubs are required to use PBA code 523910.

Item F – Total Assets at End of Taxable Year

See the instructions for Schedule L – Balance Sheets before completing this item.

If the LLC is required to complete this item, enter the total assets at the end of the LLC's taxable year. This is determined by the accounting

method regularly used to maintain the LLC's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

Question J

Enter the maximum number of members in the LLC at any time during the taxable year. The number of Schedules K-1 (568) attached to the Form 568 must equal the number of members entered on Question J. Do not use abbreviations or terms such as "Various."

Question K through Question V

Check the "Yes" or "No" box.

Note: SMLLCs are excluded from providing a Schedule K-1 (568).

Question K

An "investment partnership" is a partnership that meets **both** of the following criteria:

1. No less than 90% of the cost of the partnership's total assets consist of:
 - Qualifying investment securities;
 - Deposits at banks or other financial institutions; and
 - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership.
2. No less than 90% of the partnership's gross income is from interest, dividends, and gains from the sale or exchange of "qualifying investment securities."

"Qualifying investment securities," include:

- Common and preferred stock, as well as debt securities convertible into common stock;
- Bonds, debentures, and other debt securities;
- Foreign and domestic currency deposits or equivalents and securities convertible into foreign securities;
- Mortgage-backed or asset-backed securities secured by governmental agencies;
- Repurchase agreements and loan participations;
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies;
- Stock and bond index securities and futures contracts, and other similar securities;
- Regulated futures contracts; and
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

"Qualifying investment securities" do **not** include an interest in a partnership, unless the partnership qualifies as an "investment partnership."

See R&TC Sections 17955 and 23040.1 and General Information O, Investment Partnerships, for more information.

Question M

If Question M is answered "Yes," see the federal partnership instructions concerning an election to adjust the basis of the LLC's assets under IRC Section 754.

Question O

All LLCs must answer all three questions.

If any of the answers are "Yes," a Statement of Change in Control and Ownership of Legal Entities (BOE-100-B) must be filed with the California State Board of Equalization (BOE); failure to do so may result in substantial penalties. Forms and information may be obtained from the BOE Website at www.boe.ca.gov and can be accessed

through **Property Tax**, and then **Legal Entity Ownership Program**.

There may be a change in ownership or control if, during this year, one of the following occurred with respect to this LLC (or any legal entity in which it holds a controlling or majority interest):

- The percentage of ownership interests transferred to, or owned or controlled by one person or one legal entity cumulatively exceeded 50%; or
- The total ownership interests transferred to or held by one irrevocable trust or trust beneficiary cumulatively exceeded 50%; or
- This LLC, or any legal entity in which it holds a controlling or majority interest, cumulatively acquired ownership or control of more than 50% of the LLC or other ownership interests in any legal entity; or
- As of the end of this year, cumulatively more than 50% of the total ownership interests have been transferred, or the LLC experienced a change in ownership or control, in one or more transactions since March 1, 1975.

For purposes of these questions, leased real property is a leasehold interest in taxable real property: (1) leased for a term of 35 years or more (including renewal options), if not leased from a government agency; or (2) leased for any term, if leased from a government agency.

R&TC section 64(e) requires this information for use by the California State BOE.

Question P

California requires taxes to be withheld from certain payments or allocations of income and sent to the FTB (R&TC Sections 18662 and 18666). If upon the examination, the FTB determines that tax withholding was required, the LLC may be liable for the tax and penalties.

The reference to Forms 592, 592-A, and 592-B relates to LLC withholding. If you need additional information concerning LLC withholding, see General Information K, Required Information Returns, and General Information R, Withholding Requirements, in this booklet.

Question U

See General Information S, Check-the-Box Regulations, for the filing requirements for disregarded entities.

Question V

Federal Form 8271, Investor Reporting of Tax Shelter Registration Number, is required to be attached to any return on which a deduction, loss, credit, or any other tax benefit is claimed or reported, or any income reported, from an interest in a registration-required tax shelter. If the LLC is required to file this form with the federal return, attach a copy to the LLC's Form 568. Do not attach copies of federal Schedule K-1 (1065).

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Treas. Reg. 1.6011-4 and includes, but is not limited to:

- A Confidential Transaction, which is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.

- A loss transaction under IRC Section 165, which is at least \$10 million in any one-year or \$20 million in any combination of tax years. (Those numbers would be reduced to \$2 million and \$4 million on the Form 100S, California S Corporation Franchise or Income Tax Return.)
- A transaction with a significant book-tax difference.
- A transaction where the taxpayer is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days.

A Listed Transaction is a specific reportable transaction, or one that is substantially similar, which has been identified by the Internal Revenue Service or the Franchise Tax Board to be a tax avoidance transaction.

A Registered Tax Shelter is any investment, which is required to be registered with the Internal Revenue Service under IRC Section 6111.

LLC Income Worksheet Instructions

Note: Unless indicated on the LLC Income Worksheet line items, do not enter a negative number.

"Total Income" for the LLC fee means the gross income plus the cost of goods sold that are paid or incurred in connection with the trade or business (R&TC Section 17942). Compute the LLC's "Total Income" from all sources before taking into consideration any apportionment and allocation.

Effective for taxable year 2003, the amount of gain from the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in a prior year is no longer included in line 1 of the worksheet. To properly report the total income, enter the gain on line 17d.

Note: The definition of "Total Income" excludes allocations, distributions, or gains to an LLC from another LLC, if that allocation, distribution, or gain was already subject to the LLC fee. Use line 1b to exclude these amounts.

LLCs with ownership interest in a pass-through entity must report their distributive share of the pass-through entity's "Total Income." Their distributive share cannot include any deductions that are subtracted from gross ordinary income to obtain net ordinary income. Also, the matching cost of goods sold must be entered on line 18d. Contact the pass-through entity to get the necessary information for lines 3, 9c, 10c, 13b, 14b, 15b, 16b, 17b, and 18d.

Note: Line 19 may not be a negative number.

LLCs that are disregarded entities compute the "Total Income" on the LLC Income Worksheet. Use the applicable lines. **Note:** Attach a copy of the completed LLC Income Worksheet to the LLC's return.

Specific Line Instructions

Form 568, Side 1

Line 1 – Total Income from the LLC Income Worksheet

Enter the LLC's "Total Income" as computed on the LLC Income Worksheet, page 17, line 19. The amount entered on Form 568, line 1, may not be a negative number.

Line 2 – Limited Liability Company Fee

Enter the amount of the LLC fee. See General Information F, Limited Liability Company Tax and Fee.

amount entered on Form 568, line 1, may not be a negative number.

Line 2 – Limited Liability Company Fee

Enter the amount of the LLC fee. See General Information F, Limited Liability Company Tax and Fee.

Line 3 – 2006 Limited Liability Company Tax

Enter the \$800 annual tax. This tax was due the 15th day of the 4th month (fiscal year) or April 15, 2006 (calendar year), after the beginning of the LLC's 2006 tax year and paid with the 2006 form FTB 3522. **When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.** If the annual LLC tax was not paid within the prescribed time period, penalties and interest are now due. See General Information G, Penalties and Interest, for more details.

Line 4 – Nonconsenting Nonresident Members' Tax Liability

Enter the total tax computed on Schedule T. The LLC is responsible for paying the tax of nonconsenting nonresident members and nonconsenting owners of disregarded entities. Treat a nonconsenting owner of a disregarded entity in the same manner as a nonconsenting nonresident member. See the Specific Line Instructions for Schedule T.

Note: The nonconsenting nonresident members' tax paid by an LLC on behalf of a nonresident is allocated to the nonresident member on Schedule K-1 (568).

Line 8 – Nonresident Withholding Credit

If the LLC was withheld upon by another entity, the LLC can either allocate the entire withholding credit to all its members or claim a portion on line 8 (not to exceed the total tax and fee due) and allocate the remaining portion to all its members. If the LLC claims any of the amount withheld, be sure to attach the Form 592-B or Form 594, showing that the LLC was withheld upon, to the front lower portion of the LLC return. The LLC must file Forms 592 and 592-B to allocate any remaining withholding credit to its members. For additional information, get FTBPub. 1017, Nonresident Withholding S Corporation and Partnership Guidelines.

Line 13 – Use Tax

As explained on page 9, California use tax applies to purchases from out-of-state sellers (for example, purchases made by telephone, over the Internet, by mail, or in person).

LLCs may report use tax on the income tax return instead of filing a use tax return with the State Board of Equalization. To report use tax on the LLC income tax return, complete the Use Tax Worksheet on this page. For questions on whether a purchase is taxable, go to the State Board of Equalization's Website at www.boe.ca.gov, or call their Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929.

If the LLC owes use tax but chooses not to report it on their income tax return, it must report and pay the tax to the State Board of Equalization. To do so, download a copy of Publication 79-B, California Use Tax, from www.boe.ca.gov or request a copy by calling the State Board of Equalization's Information Center.

Use Tax Penalty

Failure to timely report and pay the use tax due may result in the assessment of penalties.

Note: Businesses that have a California seller's permit must continue to report business purchases subject to use tax on their sales and use tax returns. See page 9 for a general explanation of California use tax.

Use Tax Worksheet

Round all amounts to the nearest whole dollar.

1. Enter purchases from out-of-state sellers made without payment of California sales/use tax. See worksheet instructions \$.00
2. Enter the decimal equivalent of the applicable sales and use tax rate. See worksheet instructions \$.00
3. Multiply line 1 by the tax rate on line 2. Enter result here \$.00
4. Enter any sales or use tax paid to another state for purchases included on line 1. See worksheet instructions \$.00
5. Total Use Tax Due. Subtract line 4 from line 3. Enter the amount here and on line 13. If the amount is less than zero, enter -0- \$.00

Worksheet, Line 1, Purchases Subject to Use Tax

- Report items that would have been taxable in a California store, such as office equipment and supplies.
- Include handling charges.
- Do not include any other state's sales or use tax paid on the purchases.
- Enter only purchases made during the year that corresponds with the tax return the partnership is filing.

Note: Do not report the following on the partnership's income tax return:

- Vehicles, vessels, and trailers that must be registered with the Department of Motor Vehicles.
- Mobile homes or commercial coaches that must be registered annually as required by the Health and Safety Code.
- Vessels documented with the U.S. Coast Guard.
- Aircraft.
- Leases of machinery, equipment, vehicles, and other tangible personal property.

Worksheet, Line 2, Sales and Use Tax Rate

- Enter the decimal equivalent of the sales and use tax rate applicable to the place in California where the property is used, stored, or otherwise consumed. For example, the decimal equivalent of 7.25% is 0.0725, and the decimal equivalent of 7.375% is 0.07375.
- If the LLC does not know the applicable rate, see the table below, "Sales and Use Tax Rates by County." If the LLC has questions regarding the use tax rate in effect in the LLC's area, go to the State Board of Equalization's Website at www.boe.ca.gov or call their Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929.

Worksheet, Line 4, Credit for Tax Paid to Another State

- This is a credit for tax paid to other states. The LLC cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California.

For example, if the LLC paid \$8.00 sales tax to another state for a purchase, and would have paid \$6.00 in California, the LLC can claim a credit of only \$6.00 for that purchase.

Sales and Use Tax Rates by County

(includes state, local, and district taxes)

As of December 31, 2006

County	Rate	County	Rate
Alameda	8.75%	Orange ¹	7.75%
Alpine	7.25%	Placer	7.25%
Amador	7.25%	Plumas	7.25%
Butte	7.25%	Riverside	7.75%
Calaveras	7.25%	Sacramento	7.75%
Colusa	7.25%	San Benito ¹	7.25%
Contra Costa ¹	8.25%	San Bernardino ¹	7.75%
Del Norte	7.25%	San Diego ¹	7.75%
El Dorado ¹	7.25%	San Francisco	8.50%
Fresno ¹	7.975%	San Joaquin ¹	7.75%
Glenn	7.25%	San Luis Obispo	7.25%
Humboldt ¹	7.25%	San Mateo	8.25%
Imperial ¹	7.75%	Santa Barbara	7.75%
Inyo	7.75%	Santa Clara	8.25%
Kern	7.25%	Santa Cruz ¹	8.00%
Kings	7.25%	Shasta	7.25%
Lake ¹	7.25%	Sierra	7.25%
Lassen	7.25%	Siskiyou	7.25%
Los Angeles ¹	8.25%	Solano	7.375%
Madera	7.25%	Sonoma ¹	7.75%
Marin ¹	7.75%	Stanislaus	7.375%
Mariposa	7.75%	Sutter	7.25%
Mendocino ¹	7.25%	Tehama	7.25%
Merced ¹	7.25%	Trinity	7.25%
Modoc	7.25%	Tulare ¹	7.25%
Mono	7.25%	Tuolumne ¹	7.25%
Monterey ¹	7.25%	Ventura	7.25%
Napa	7.75%	Yolo ¹	7.25%
Nevada ¹	7.375%	Yuba	7.25%

1. Many cities in California impose a district tax, which results in a higher sales and use tax rate than in other parts of the county. If you are reporting an item that was purchased for use in any of the following cities, please use the appropriate tax rate shown below. The following tax rates apply within the city limits of the listed community.

County	City	Citywide Rate
Contra Costa	Richmond	8.75%
El Dorado	Placerville	7.50%
El Dorado	South Lake Tahoe	7.75%
Fresno	Clovis	8.275%
Humboldt	Trinidad	8.25%
Imperial	Calexico (effective 4/01/2006) ^a	7.75%
Lake	Clearlake	7.75%
Lake	Lakeport	7.75%
Los Angeles	Avalon	8.75%
Marin	San Rafael (effective 4/01/2006) ^b	8.25%
Mendocino	Fort Bragg	7.75%
Mendocino	Point Arena	7.75%
Mendocino	Ukiah	7.75%
Mendocino	Willits	7.75%
Merced	Los Banos	7.75%
Merced	Merced (effective 4/01/2006) ^c	7.75%
Monterey	Salinas (effective 4/01/2006) ^d	7.75%
Monterey	Sand City	7.75%
Nevada	Town of Truckee	7.875%
Orange	Laguna Beach (effective 7/01/2006) ^e	8.25%
San Benito	San Juan Bautista	8.00%
San Bernardino	Montclair	8.00%
San Diego	El Cajon	8.25%
San Diego	National City (effective 10/01/2006) ^f	8.75%
San Joaquin	Stockton	8.00%
Santa Cruz	Capitola	8.25%

Sonoma	Santa Rosa	8.00%
Tulare	Dinuba	8.00%
	(effective 4/01/2006) ^f	8.00%
Tulare	Farmersville	7.75%
Tulare	Porterville	7.75%
	(effective 4/01/2006) ^g	7.75%
Tulare	Tulare	7.75%
	(effective 4/01/2006) ^h	7.75%
Tulare	Visalia	7.50%
Tuolumne	Sonora	7.75%
Yolo	Davis	7.75%
Yolo	West Sacramento	7.75%
Yolo	Woodland	7.75%
	(effective 10/1/06) ^j	7.75%

- The tax rate in Calexico prior to April 1, 2006, was 8.25%.
- The tax rate in San Rafael prior to April 1, 2006, was 7.75%.
- The tax rate in City of Merced prior to April 1, 2006, was 7.25%.
- The tax rate in Salinas prior to April 1, 2006, was 7.25%.
- The tax rate in Scotts Valley prior to April 1, 2006, was 8.00%.
- The tax rate in Dinuba prior to April 1, 2006, was 7.25%.
- The tax rate in Porterville prior to April 1, 2006, was 7.25%.
- The tax rate in City of Tulare prior to April 1, 2006, was 7.25%.
- The tax rate in Woodland prior to July 1, 2006, was 7.75%.
- The tax rate in Woodland from July 1, 2006 to September 30, 2006, was 7.25%.
- The tax rate in Laguna Beach prior to July 1, 2006, was 7.75%.
- The tax rate in National City prior to October 1, 2006, was 7.75%.

Line 15 – Penalties and Interest

Enter penalties and interest. See General Information G, Penalties and Interest.

Single Member LLC Information and Consent

Please complete all requested information. If the owner has both a federal Taxpayer Identification Number (TIN) and a California SOS file number, enter both. Provide the identification numbers of the entity that will report the items of income, deductions, credits, etc., of the disregarded entity and the type of return the owner will file. The owner will be responsible for limiting any credits attributable to the disregarded entity.

The LLC must treat the failure of the sole owner to sign this consent in the same manner as the failure of a nonresident member to sign form FTB 3832. See the Specific Line Instructions for Schedule T.

If the single owner of the LLC signs the consent, complete only Form 568, Side 1, Side 2, Schedule K, Schedule B and pay the amount due. Multiple member LLCs will complete the remaining schedules, as appropriate.

Single member LLCs do not complete form FTB 3832. A single member LLC consents to be taxed under California jurisdiction by signing the Single Member LLC Information and Consent on Form 568. Multiple member LLCs must complete and sign form FTB 3832.

Schedule A — Cost of Goods Sold

California's reporting requirements for LLCs are generally the same as the federal reporting requirements for partnerships. Follow the instructions for federal Form 1065, Schedule A.

Schedule B — Income and Deductions

Line 1 through Line 12

California's reporting requirements for LLCs classified as partnerships are generally the same as the federal reporting requirements for partnerships.

Follow the instructions for federal Form 1065 and include only trade or business activity income on line 1 through line 12. However, for California tax purposes, business income of the LLC is defined using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be included as business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (568) and Schedule K-1 (568). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 568. Use California amounts and attach a statement reconciling any differences between federal and California amounts.

Note: Use worldwide amounts determined under California law when completing these lines.

Note: Form 568, Schedule B, lines 4 through line 12 has been separated to report total gains and total losses. Net amounts are no longer reported. **List total gains and total losses separately, even if listed together on federal forms.**

Line 6 – Total Farm Profit

Line 7 – Total Farm Loss

Enter on line 6 the LLC's total farm profit from federal Schedule F (Form 1040), Line 36, Profit or Loss From Farming. Enter on line 7 the LLC's total farm loss from federal Schedule F (Form 1040), Line 36, Profit and Loss From Farming. Attach federal Schedule F to Form 568. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach an explanation of the difference.

Line 8 – Total Gain from Schedule D-1

Line 9 – Total Loss from Schedule D-1

Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets must be reported separately on Schedule K (568) and Schedule K-1 (568), generally as part of the net income (loss) from the rental activity.

An LLC that is a member in another LLC or partner in a partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other LLC's or partnership's trade or business assets.

Line 13 through Line 22

California's reporting requirements for LLCs are generally the same as the federal reporting requirements for partnerships.

Follow the instructions for federal Form 1065 and include only trade or business activity deductions on line 13 through line 21. Line 21 (Other Deductions) includes repairs, rents and taxes. Do not include any rental activity expenses

or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (568) and Schedule K-1 (568).

Federal reporting requirements for organization and syndication expenses and uniform capitalization rules apply for California.

Note: Use worldwide amounts determined under California law when completing these lines.

Claim of Right. To claim the deduction, enter a deduction on line 21. If you elect to take the credit instead of the deduction, remember to use the California tax rate, add the credit amount to the total on line 9, Total payments. To the left of this total, write IRC 1341 and the amount of the credit.

Line 17a – Depreciation and Amortization

Enter on line 17a only the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885L, Depreciation and Amortization (included in this booklet), to figure depreciation and amortization. Transfer the total from form FTB 3885L, line 6, to Form 568, Side 2, line 17a, or federal Form 8825, as appropriate (use California amounts).

Do not include any expense deduction for depreciable property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Targeted Tax Area, R&TC Section 17267.6; or Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the LLC. Instead, the expense is passed through separately to the members and is reported on line 9 of Schedule K (568) and Schedule K-1 (568).

Schedule L — Balance Sheets

Note: If Question 5a through Question 5c on federal Form 1065, Schedule B, are all answered "Yes" and the LLC has 10 or fewer members, the LLC is not required to complete Schedules L, M-1, M-2, or Item F on Side 1 of Form 568 or Item I on Schedule K-1 (568).

California's reporting requirements for LLCs classified as partnerships, are the same as the federal reporting requirements for partnerships. The amounts reported on the balance sheet should agree with the books and records of the LLC and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences between federal and state amounts or the balance sheet and the LLC's books and records. Follow the instructions for federal Form 1065, Schedule L.

Schedule M-1 — Reconciliation of Income (Loss) per Books With Income (Loss) per Return, and Schedule M-2 — Analysis of Members' Capital Accounts

If the LLC is required to complete Schedule M-1 and Schedule M-2, the amounts shown should agree with the LLC's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Note: Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item I, column (c), of all the members' Schedules K-1 (568).

Net Income (Loss) Reconciliation for Certain LLCs. For taxable years beginning on or after January 1, 2006, the Internal Revenue Service (IRS) requires certain LLCs to complete Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain LLCs, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income per Return. For California purposes, the LLC must still complete the California Schedule M-1, and:

- Attach a copy of the Schedule M-3 (Form 1065) and related attachments to the California Franchise or Income Tax Return; or
- Attach a complete copy of the federal return; or
- FTB will accept the Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

Schedule O — Amounts from Liquidation Used to Capitalize a Limited Liability Company

Complete Schedule O if “initial return” is checked in Question I of Form 568.

Schedule O is a summary of the entities liquidated to capitalize the LLC and the amount of gains recognized in such liquidations.

Include the complete names and identification numbers of all entities liquidated. Check the appropriate box for the type of entity liquidated. Include the amount of liquidation gains recognized in order to capitalize the LLC.

Schedule T — Nonconsenting Nonresident Members’ Tax Liability

Use Schedule T to compute the nonconsenting nonresident members’ tax liability to be paid by the LLC. List the names and identification numbers of all nonresident members who have not signed a form FTB 3832 and have not consented to be subject to California tax. Also, list the nonresident members’ distributive share of income.

To compute the amount of tax that must be paid by the LLC on behalf of a nonconsenting nonresident member, multiply such member’s distributive share of income by the following tax rates:

- 8.84% if the member is a C corporation;
- 9.3% if the member is an individual, partnership, LLC, estate, or trust; or
- 1.5% if the member is an S corporation.

Note: Each member’s Nonconsenting Nonresident Members’ Tax may be reduced by the amount of tax previously withheld under R&TC Section 18662 and paid by the limited liability company on behalf of such member.

Multiply column c by column d and put the result in column e for each nonconsenting nonresident member. Reduce column e by the amount in column f and put the net amount in column g for each nonconsenting nonresident member.

The tax being paid by the LLC on behalf of nonconsenting nonresident members is due on the 15th day of the 4th month following the close of the LLC’s taxable year.

Reminder: All members must file a California tax return. The completion of Schedule T or form FTB 3832 does not satisfy the member’s California filing requirement. Corporate members

are also considered doing business in California and may have additional filing requirements. For additional information get FTB Pub. 1060, Guide for Corporations Starting Business in California. Nonresident individuals may qualify to file a group Form 540NR and should get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

Schedule K (568) and Schedule K-1 (568) — Member’s Share of Income, Deductions, Credits, etc.

Purpose of Schedules

Schedule K (568) is a summary schedule for the LLC’s income, deductions, credits, etc. and Schedule K-1 (568) shows each member’s distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (568) must be attached to the Form 568 when it is filed unless the LLC wishes to file paperless Schedules K-1 (568), see General Information T, Substitute Schedules, for additional information.

Be sure to give each member a copy of their respective Schedule K-1 (568). The LLC should also include a copy of the Member’s Instructions for Schedule K-1 (568) or specific instructions for each item reported. These items should be provided to the member on or before the due date of the Form 568.

Schedule K (568) Only

In column (b) on Schedule K (568), Members’ Shares of Income, Deductions, Credits, etc., enter the amounts from federal Schedule K (1065), Partners’ Shares of Income, Credits, Deductions, etc.

In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments related to California source income). In column (d), enter the worldwide income computed under California law.

For members to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income must be considered separately by the member. Rental activity income (loss) and portfolio income are not reported on Form 568, Side 3 so that these amounts are not combined with trade or business activity income (loss). Instead, these amounts are reported on Schedule K, line 2, line 3, and line 4.

Compliance with LLC Filing Requirements

To help ensure the accurate and timely processing of the LLC’s Form 568, please verify the following:

- A Schedule K-1 (568) has been attached to Form 568 for each member included on Form 568, Side 2, Question J. LLCs eligible for the reduced filing program, see General Information D, Who Must File.
- The attached Schedule K-1 (568) contains the member’s correct name, address, and identifying number.
- Items A through I and Questions are completed on Schedule K-1 (568), Side 1.
- The appropriate entity type box (Schedule K-1 (568), Side 1, Question A) is checked for each member.
- All attached Schedules K-1 (568) reconcile to Schedule K.
- The member’s percentage, on Schedule K-1 (568), Question C, is expressed in decimal format and carried to four decimal places (i.e.,

33.5432). Do not print fractions, percentage symbols (%), or use terms such as “Various.”

- Substitute computer-generated Schedule K-1 (568) forms **must** be approved by the FTB.

Schedule K-1 (568)

The Schedule K-1 (568) details each member’s distributive share of the LLC’s income, deductions, credits, etc. The LLC completes the entire Schedule K-1 (568) by filling out the member’s and LLC’s information (name, address, identifying numbers), Questions A through I and the member’s distributive share of items.

Note: For members with PMB addresses, include the designation number in the member’s address area. Precede the number (or letter) with “PMB.”

Example: If a husband and wife each had an interest in the LLC, prepare a separate Schedule K-1 (568) for each spouse. If a husband and wife held an interest together, prepare a single Schedule K-1 (568) since they are considered to be one member.

For each individual member, enter the member’s social security number (SSN) or Individual Taxpayer Identification Number (ITIN). For all other members enter their FEIN. However, if a member is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the SSN or ITIN of the person for whom the IRA is maintained.

The LLC files one California Schedule K-1 (568) for each member with the LLC return and gives one copy to the appropriate member. Do not attach federal Schedules K-1 (1065). The LLC should also provide each member with a copy of either the Member’s Instructions for Schedule K-1 (568) or specific instructions for each item reported.

Determining the Source of the LLC’s Income for a Resident Member

A resident member should include the entire distributive share of LLC income in their California income. If the LLC apportions its income, the member may be entitled to a tax credit for taxes paid to other states. The member should be referred to Schedule S, Other State Tax Credit, for more information.

Determining the Source of the LLC’s Income for a Nonresident Member

Business Income: Regardless of the classification of income for federal purposes, the LLC’s income from California sources is determined in accordance with California law (Cal. Code Regs., tit. 18 section 17951-4). If the LLC conducts:

- A trade or business wholly within California, then income from that trade or business is California source income;
- A business within and outside California, but the part within the state is so separate and distinct that it can be separately accounted for, then only that separate income from within the state is California source income; or
- A single trade or business within and outside California;

then California source business income of that trade or business is determined by apportionment. The LLC should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Sections 25120 through 25139). Special rules

apply if the LLC has income that is not attributable to the trade or business of the LLC (nonbusiness income).

Nonbusiness Income: Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, or gains or losses) located in California is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 25124 and 25125). Enter this information on the appropriate line of Schedule K-1 (568). If the LLC believes it may have a unitary member, the information for that member should also be entered in Table 2, Part B, for that member.

The source of nonbusiness income attributable to intangible property depends upon the member's state of residence or commercial domicile. Individuals generally source this income to their state of residence and corporations to their commercial domicile, R&TC Sections 17951 through 17955.

Note: Because the determination of the source of intangible nonbusiness income must be made at the member level, this income is not entered on Schedule K-1 (568), column (e). It is only entered in Table 1.

Completing Schedule K-1 (568)

- **In column (b),** enter the amounts from federal Schedule K-1 (1065).
- **In column (c),** enter the adjustments resulting from differences between California and federal law for each specific line item.
- **In column (d),** enter the result of combining column (b) and column (c). This is total income under California law.

Column (e) is used to report California source income and credits. Include the following items in this column:

1. Income from separate businesses, trades, or professions conducted wholly within California, see Cal. Code Regs., tit. 18 section 17951-4(a).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for, see Cal. Code Regs., tit. 18 section 17951-4(b).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade or profession, see Cal. Code Regs., tit. 18 section 17951-4(c) and R&TC Sections 25128 through 25137. Generally, the LLC should apportion business income using a 4-factor formula consisting of property, payroll, and a double weighted sales factor. Use a 3-factor formula consisting of payroll, property, and a single weighted sales factor if more than 50% of the business receipts of the LLC are from agricultural, extractive, savings and loans, or bank and financial activities. Apportioning LLCs should get and complete Schedule R and attach it to Form 568.
4. Nonbusiness income from real and tangible property located in California. Enter the member's share of nonbusiness income from real and tangible property located in California in column (e). If the LLC believes it may have a unitary member, enter this income in Table 2, Part B.
5. California credits.

Note: Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Member's Instructions for Schedule K-1 (568).

Completing Column (d) and Column (e):

Schedule K-1 (568), column (d), includes the member's distributive share of total LLC income, deductions, gains, or losses under California law. Column (e) includes only income, deductions, gains or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the member is not a factor in the computation of amounts to be included in column (d) and column (e).

For an LLC that is doing business wholly within California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, gain, or loss from sales of securities).

For an LLC that is doing business within and outside California, the amounts in column (d) and column (e) may be different.

If the LLC knows the member is a resident individual, then the LLC answers "No" to Question H on Schedule K-1 (568), and completes column (d), only. Otherwise, the LLC should complete column (e) for all other members.

Completing Table 1

Complete Table 1 only if the LLC has nonbusiness intangible income. If the LLC has nonbusiness intangible income, and knows that the member is a resident individual, then the LLC does not need to complete Table 1 for the member.

Completing Table 2

The LLC does not need to complete Table 2 if the LLC knows that the member is not unitary with its trade or business or any other trade or business.

Special Rules for Members and LLCs in a Single Unitary Business

Special rules apply if the LLC and a member are engaged in a single unitary business. In that case, a unitary member will not use the income information shown in column (e). Instead, the member's distributive share of business income is combined with the member's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the member's share of the apportionment factors from the LLC and the member's own apportionment factors, Cal. Code Regs., tit. 18 section 25137-1(f). The determination of whether a 3-factor or 4-factor apportionment formula applies to the combined income will be made at the member level. The member's distributive share of business income and property, payroll, and sales factors are entered in Table 2.

If the LLC knows that all of the members are unitary with the LLC, the LLC need not complete column (e) or attach Schedule R. For further information, see Member's Instructions for Schedule K-1 (568).

Special Reporting Requirements for Passive Activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (568), the LLC must attach a statement to Schedule K-1 (568) for each activity that is a passive activity to the member. Rental activities are passive activities to all members;

trade or business activities may be passive activities to some members. The attachment must include all the information explained in the instructions for federal Schedule K-1 (1065).

Question A, Schedule K-1 (568)

Check the appropriate box to indicate the member's entity type. Exempt organizations should check the exempt organization box regardless of legal form.

Question B, Schedule K-1 (568)

See the instructions for Question J, located on the federal Schedule K-1 (1065).

Question C, Schedule K-1 (568)

Percentages must be 4 to 7 characters in length and have a decimal point before the final 4 characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000. Do not enter a fraction, the percentage symbol (%), or the term "Various."

Specific Line Instructions

The California Schedule K (568) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (568) refer to the instructions for federal Schedule K (1065).

Question D, Schedule K-1 (568)

See the instructions for Question F located on the federal Schedule K-1 (1065).

Note: California line numbers are different from federal line numbers in the Income and Deductions sections.

Income

Line 1 through Line 7

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Income (Loss), line 1 through line 11.

Note: Energy conservation rebates, vouchers, or other financial incentives are excluded from income.

Line 1, column (c)

An adjustment to increase the business income of a service LLC to reflect the guaranteed payment deduction adjustment required by Cal. Code Regs., tit. 18 section 17951-4(f) should be made here.

Note: Schedule K must include all income and losses from the LLC activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K.

Line 6

Enter on line 6 the amount shown on Schedule D-1, Sales of Business Property, line 7. Do not include specially allocated ordinary gains and losses, or net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 7, along with a schedule and explanation.

If the LLC has more than one activity and the amount on line 6 is a passive activity amount to the member, attach a statement to Schedule K-1 (568), or use the space provided on Side 2 of Schedule K-1 (568) that identifies the activity to which IRC Section 1231 gain (loss) relates.

Deductions

Line 8 – Charitable Contributions

Enter the total amount of charitable contributions made by the LLC during its taxable year on

Schedule K (568) and each member's distributive share on Schedule K-1 (568). Attach an itemized list to both schedules that show the amount subject to the 50%, 30%, and 20% limitations.

Members are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170. For taxable years beginning on or after January 1, 2002, California law conforms to the federal law, relating to the denial of the deduction for lobbying activities, club dues, and employee remuneration in excess of one million dollars.

Note: California conforms to IRC Section 170(f)(8) substantiation requirement for charitable contributions.

Line 9 through Line 11

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Deductions, line 12 and line 13.

IRC Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885L, Depreciation and Amortization.

Note: California has not conformed to the federal Job Creation and Worker Assistance Act of 2002 that allows taxpayers to take an additional first-year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.

Investment Interest

Line 12a through Line 12b(2)

These lines must be completed whether or not a member is subject to the investment interest rules.

Line 12a – Interest Expense on Investment Debts

Enter the interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 12a of Schedule K (568) and Schedule K-1 (568) rather than line 10 of Schedule K (568) and Schedule K-1 (568).

Property held for investment includes a member's interest in a trade or business activity that is not a passive activity to the LLC and in which the member does not materially participate. An example would be the rule concerning a member's working interest in an oil and gas property (i.e., the member's interest is not limited if the member does not materially participate in the oil and gas activity). Investment interest does not include interest expense allocable to a passive activity. For more information get form FTB 3526, Investment Interest Expense Deduction.

Line 12b(1) and Line 12b(2) – Investment Interest Income and Expenses

Enter on line 12b(1) only the investment income included on line 4a, line 4b, line 4c, and line 4e of Schedule K (568) and Schedule K-1 (568). Enter on line 12b(2) only the investment expense included on line 10 of Schedule K (568) and Schedule K-1 (568).

If items of investment income or expense are included in the amounts that are required to be passed through separately to the member on Schedule K-1 (568), items other than the amounts included on line 4 and line 10 of Schedule K-1

(568), give each member a statement identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and other amounts that are gross portfolio income. Investment income and investment expense generally do not include any income or expense from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information.

Credits

Line 13a – Total Withholding, Schedule K-1 (568) only

Add the total amounts on all member's Schedule K-1 (568). If taxes were withheld by the LLC or if there is a pass-through withholding credit from another entity, the LLC must provide each affected member (including California residents) a completed Form 592-B. Members must attach Form 592-B to the front of their California tax return to claim the withheld amounts. Schedule K-1 (568) may **not** be used to claim this withholding credit.

Line 13b through Line 13d

These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

Note: California line numbers are different from federal line numbers in this section.

Line 13b – Low-Income Housing Credit

A credit may be claimed by owners of residential rental projects providing low-income housing (IRC Section 42). Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

Line 13c – Credits Related to Rental Real Estate Activities Other Than Line 13b

Report any information that the members need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each member's Schedule K-1 (568) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13d – Credits Related to Other Rental Activities

Use this line to report information that the members need to figure credits related to a rental activity. Attach to each member's Schedule K-1 (568) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13e – Nonconsenting Nonresident Member's Tax Paid by LLC, Schedule K-1 (568) only

If income tax was paid by the LLC on behalf of a nonresident member who did not sign form FTB 3832, the amount paid is entered on the member's Schedule K-1 (568), line 13e. This is not a distributive share item; it is only reported on the specific nonresident member's Schedule K-1.

Members must attach a copy of Schedule K-1 (568) to their California income tax return to claim the tax paid by the LLC on their behalf.

If income tax was paid by an LLC on behalf of a member that is an LLC and form FTB 3832, Limited Liability Company Nonresident Members' Consent, is not signed on behalf of the member LLC, the amount paid by an LLC is entered on the member LLC's Schedule K-1 (568) line 13e. This credit is allocated to all members according to their LLC interest. Individual members must attach a copy of the Schedule K-1 (568), previously issued to the member LLC by its LLC as well as the Schedule K-1 (568) issued by the member LLC to its members, to their California tax return to claim their share of the tax paid by the LLC on behalf of the member LLC.

Line 14 – Other Credits

Attach a schedule showing each member's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Farmworker Housing Credit-Construction. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Joint Strike Fighter Credit. Get form FTB 3534.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3505.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Solar or Wind Energy System Credit. Get form FTB 3508.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

Line 14 may also include the distributive share of net income taxes paid to other states by the LLC. Subject to limitations of R&TC Sections 18001 and 18006, members may claim a credit against their individual income tax for net income taxes paid by the LLC to another state. The amount of tax paid must be supported by a schedule of payments and evidence of tax liability by the LLC to the other states. Refer the members to Schedule S for more information.

Reminder: All of the above credit forms and many others are available on our Website at www.ftb.ca.gov.

Adjustments and Tax Preference Items

Line 15a through Line 15e

Enter each member's distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (540), Alternative Minimum Tax and Credit Limitations – Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations – Nonresidents or Par-Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries; Schedule P (100), Alternative Minimum Tax and Credit Limitations – Corporations; or Schedule P (100W), Alternative Minimum Tax and Credit Limitations – Water's-Edge Filers, to determine amounts and for other information.

California law conforms to the existing federal law eliminating the deduction for contributions of appreciated property as an item of tax preference. As a result, taxpayers no longer need to include in their computation of Alternative Minimum Taxable Income the amount by which any allowable deduction for contributions of appreciated property exceeds the taxpayer's adjusted basis in the contributed property.

For additional information, see instructions for federal Schedule K (1065), Adjustments and Tax Preference Items, line 17a through line 17e. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

Other

Line 16 through Line 21

See the instructions for federal Schedule K-1 (1065), "Other," line 18 through line 20.

Line 22 (Schedule K)

The gain on property subject to the IRC Section 179 Recapture should be reported on the Schedule K as supplemental information as instructed on the federal Form 4797.

The LLC must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

- Description of the property.
- Date the property was acquired.
- Date the property was sold.
- Gross sales price.
- Cost or other basis plus expense of sale (not including the LLC's basis reduction in the property due to IRC Section 179 expense deduction).
- Depreciation allowed or allowable (not including the IRC Section 179 expense deduction).
- Amount of IRC Section 179 expense deduction (if any) passed through to each member for the property and the LLC's tax year(s) in which the amount was passed through.
- An indication if the disposition is from a casualty or theft.
- If this is an installment sale, any information needed to complete form FTB 3805E, Installment Sale Income.

Line 22 (Schedule K-1 (568) only)

The LLC may need to report supplemental information that is not specifically requested on the Schedule K-1 (568) separately to each member.

Members may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the LLC.

The gain or loss on property subject to the IRC Section 179 Recapture should be reported on Schedule K-1 as supplemental information as instructed on the federal Form 4797.

The LLC must provide all of the following information with respect to a disposition of business property if an IRC section 179 expense deduction was claimed in prior years:

- Description of the property.
- Date the property was acquired.
- Date the property was sold.
- The members pro-rata share of the gross sales price.
- The members pro-rata share of the cost or other basis plus expense of sale (**not** including the entity's basis reduction in the property due to IRC Section 179 expense deduction).
- The members pro-rata share of the depreciation allowed or allowable (**not** including the IRC Section 179 expense deduction).
- The members pro-rata share of the amount of IRC 179 expense deduction (if any) passed through to the member for the property and the LLC's tax year(s) in which the amount was passed through.
- An indication if the disposition is from a casualty or theft.
- If this is an installment sale, any information needed to complete form FTB 3805E, Installment Sale Income. The LLC also must separately report the member's pro-rata share of all payments in future tax years. (Installment payments received for installment sales made in prior tax years should be reported in the same manner used in prior tax years.)

Alternative minimum taxable income does not include income, positive and negative adjustments, and preference items attributed to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The LLC should provide the member's proportionate interest of aggregate gross receipts on Schedule K-1 (568), line 22. For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of the pass-through entity's gross receipts in which the taxpayer holds an interest.

"Aggregate gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120. For purposes of this section, "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate

investment trust (REIT) and a REMIC. See R&TC Section 17062 for more information.

Also show on line 22 a statement noting each of the following:

- Each member's distributive share of business income apportioned to an EZ, LAMBRA, MEA, or TTA; and
- Each member's distributive share of business capital gain or loss included in 1 above.

Analysis (Schedule K (568) only)

Line 23a and Line 23b

See the federal instructions for Schedule K (1065), Analysis of Net Income (Loss).

Tables (Schedule K-1 (568) only)

Table 1

Enter the member's share of nonbusiness income from intangibles. Because the source of this income must be determined at the member level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short-term and long-term capital gain), attach a supplemental statement providing a breakdown of income (loss) in each subclass.

Note: Enter nonbusiness income from intangibles in Table 1 net of related expenses. Do not include expenses offset against nonbusiness income from intangibles in column (e).

Table 2

The final determination of unity is made at the member level. If the LLC and the member are unitary, or if the LLC is uncertain as to whether it is unitary with the member, it should furnish the information in Table 2.

Part A. Enter the member's distributive share of the LLC's business income. The member will then add that income to its own business income and apportion the combined business income.

"Business income" is defined by Cal. Code Regs., tit. 18 section 25120(a) as income arising in the regular course of the corporation's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

Part B. Enter the member's share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

Nonbusiness income is all income other than business income.

Part C. Enter the member's distributive share of the LLC's payroll, property, and sales factors.

Limited Liability Company Income Worksheet — Attach to the LLC's return

1	a	Total income from Form 568, Schedule B, line 12	1a	
	b	Enter as a negative number, any allocations, distributions, or gains from another LLC that was already subject to the LLC fee	1b	
2		Gross income of the disregarded entity not included in lines 9 through 18	2	
3		LLC's distributive share of gross ordinary income from pass-through entities	3	
4		Add gross farm income from federal Schedule F (Form 1040). Use California amounts	4	
5		Total the amounts from Schedule B, line 4 through line 11. If the amount is positive, enter as a negative. If the amount is negative, enter as a positive	5	
6		Enter the total of other income (not loss) from Form 568, Schedule B, line 10	6	
7		Enter the ordinary gains (not losses) and the recapture income from Schedule D-1, Part II, line 17	7	
8		Add line 1a through line 7	8	
9		Rental real estate		
	a	Enter the gross rents from federal Form 8825, line 17	9a	
	b	Enter the gross rents from rental real estate of the disregarded entity	9b	
	c	Enter the LLC's distributive share of gross rents from rental real estate	9c	
	d	Add line 9a through line 9c	9d	
10		Other rentals		
	a	Enter the gross income from other rental activities (do not include any losses from the sale or involuntary conversion of an asset if included in Schedule K, line 3a)	10a	
	b	Enter the gross income from other rentals of the disregarded entity	10b	
	c	Enter the LLC's distributive share of gross income from other rentals from pass-through entities	10c	
	d	Add line 10a through line 10c	10d	
11		Interest		
	a	Enter the total interest of the disregarded entity	11a	
	b	Enter the interest from Schedule K, line 4a	11b	
	c	Add line 11a and line 11b	11c	
12		Dividends		
	a	Enter the total dividends of the disregarded entity	12a	
	b	Enter the dividends from Schedule K, line 4b	12b	
	c	Add line 12a and line 12b	12c	
13		Royalty income		
	a	Enter the gross royalty income of the disregarded entity	13a	
	b	Enter the LLC's distributive share of gross royalty income from pass-through entities	13b	
	c	Enter the LLC's gross royalty income included in Schedule K, line 4c	13c	
	d	Add line 13a through line 13c	13d	
14		Capital gains		
	a	Enter the capital gains (not losses) of the disregarded entity	14a	
	b	Enter the LLC's distributive share of capital gains (not losses) from pass-through entities	14b	
	c	Enter the capital gains (not losses) included in Schedule D (568)	14c	
	d	Add line 14a through line 14c	14d	
15		Other portfolio income		
	a	Enter the other portfolio income (not loss) of the disregarded entity	15a	
	b	Enter the LLC's distributive share of other portfolio income (not loss) from pass-through entities	15b	
	c	Enter the LLC's other portfolio income (not loss) included in Schedule K, line 4e	15c	
	d	Add line 15a through line 15c	15d	
16		1231 gains		
	a	Enter the 1231 gains (not losses) of the disregarded entity	16a	
	b	Enter the LLC's distributive share of 1231 gains (not losses) from pass-through entities	16b	
	c	Enter the LLC's 1231 gains (not losses) included in Schedule D-1	16c	
	d	Add line 16a through line 16c	16d	
17		Other income (not loss) not included in line 6		
	a	Enter the other income (not loss) of the disregarded entity	17a	
	b	Enter the LLC's distributive share of other income (not loss) from pass-through entities	17b	
	c	Enter the LLC's other income (not loss) included in Schedule K, line 7	17c	
	d	Enter the LLC's gain (not loss) on property subject to IRC Section 179 provisions	17d	
	e	Add line 17a through line 17d	17e	
18		Cost of goods sold		
	a	Enter the cost of goods sold of the disregarded entity	18a	
	b	Enter the cost of goods sold from Form 568, Schedule B, line 2	18b	
	c	Enter the cost of goods sold from federal Schedule F (1040) (plus California adjustments)	18c	
	d	Enter the LLC's distributive share of cost of goods sold from other pass-through entities	18d	
	e	Add line 18a through line 18d	18e	
19		Total income. Add lines 8, 9d, 10d, 11c, 12c, 13d, 14d, 15d, 16d, 17e, and 18e. Enter here and on Form 568, Side 1, line 1	19	

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2006 Limited Liability Company Return of Income**568**

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____.

A Principal business activity name (same as federal)	Limited liability company name (type or print) DBA _____	D Secretary of State file number ● _____	E Date business started in California ● _____
B Principal product or service (same as federal)	Number and street (or PO Box, rural route, or PMB no.) _____		F Enter total assets at end of year. See instructions. ● \$ _____
C Principal business activity code (same as federal) ● _____	City _____ State _____ ZIP Code _____	I Check applicable box (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> FINAL RETURN (3) <input type="checkbox"/> Amended return	
G Check accounting method: ● (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		H FEIN ● _____	

Enclose, but do not staple, any pay- ment.	1 Total income from Limited Liability Company Income Worksheet. See instructions ●	1		
	2 Limited Liability Company fee. See instructions ●	2		
	3 2006 annual Limited Liability Company tax. See instructions ●	3		
	4 Nonconsenting nonresident members' tax liability from Schedule T (Side 3) ■	4		
	5 Total tax and fee. Add line 2, line 3, and line 4 ■	5		
	6 Amount paid with form FTB 3537 and 2006 form FTB 3522 ■	6		
	7 Overpayment from prior year allowed as a credit ■	7		
	8 Nonresident Withholding Credit. See instructions ■	8		
	9 Total payments. Add line 6, line 7, and line 8 ■	9		
	10 Tax and fee due. If line 5 is more than line 9, subtract line 9 from line 5 ■	10		
	11 Overpayment. If line 9 is more than line 5, subtract line 5 from line 9 ■	11		
	12 Amount of line 11 to be credited to 2007 tax or fee ■	12		
	13 Use Tax. See instructions ●	13		00
	14 Refund. If the total of line 12 and line 13 is less than line 11; subtract the total from line 11 ■	14		
15 Penalties and interest. See instructions ■	15			
16 Total amount due. Add line 10, line 12, line 13, and line 15, then subtract line 11 from the result ■	16			

Single Member LLC Information and Consent — Complete only if the LLC is disregarded.				Federal TIN/SSN ● _____	
Sole Owner's name (as shown on owner's return)				SOS File No. _____	
Street Address, City, State, and ZIP Code				Return filed with the FTB by the Owner ●	
Member's Consent Statement: I consent to the jurisdiction of the State of California to tax my LLC income and agree to file returns and pay tax as may be required by the Franchise Tax Board.				<input type="checkbox"/> (1) Form 540 <input type="checkbox"/> (5) Form 541 <input type="checkbox"/> (2) Form 100 <input type="checkbox"/> (6) Form 100S <input type="checkbox"/> (3) Form 565 <input type="checkbox"/> (7) Form 568 <input type="checkbox"/> (4) Other _____	
Signature ►	Date	Title			
Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			Telephone () _____	
	Signature of officer	Date	Paid preparer's SSN/PTIN		
Paid Preparer's Use Only	Paid preparer's signature ►	Date	Check if self-employed <input type="checkbox"/>	FEIN _____	
	Firm's name (or yours, if self-employed) and address			Telephone () _____	

J Enter the maximum number of members in the LLC at any time during the year. Attach a California Schedule K-1 (568) for each of these members	●		
K Is this LLC an investment partnership? See General Information O	●	Yes	No
L Is this LLC apportioning income to California using Schedule R?	●	Yes	No
M Was there a distribution of property or a transfer (for example, by sale or death) of an LLC interest during the taxable year?	●	Yes	No
O (1) If this LLC (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, was there a change in control or majority ownership of any one of them this year?	●	Yes	No
(2) For this taxable year, did this LLC (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or leased real property in California?	●	Yes	No
(3) If this LLC (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, has more than 50% of the LLC ownership interest cumulatively transferred in one or more transactions since March 1, 1975?	●	Yes	No
(Penalties May Apply – See Instructions.)			
P (1) Does the LLC have any foreign nonresident members?	●	Yes	No
(2) Does the LLC have any nonresident members?	●	Yes	No
(3) Were Form 592, Form 592-A, and Form 592-B filed for these members?	●	Yes	No
Q Are any members in this LLC also LLCs or partnerships?	●	Yes	No
S Is this LLC a member or partner in another LLC or partnership?	●	Yes	No
T Is this LLC a publicly traded partnership as defined in IRC Section 469(k)(2)?	●	Yes	No
U (1) Is this LLC a business entity disregarded for tax purposes?	●	Yes	No
(2) If “Yes,” see instructions and complete Side 1, Side 2 and Side 4. Are there credits or credit carryovers attributable to the disregarded entity?	●	Yes	No
V Has the LLC included a Reportable Transaction, Listed Transaction, or Registered Tax Shelter within this return? (See Instructions for definitions). If “Yes,” complete and attach federal Form 8886 and/or Form 8271 for each transaction	●	Yes	No
W Did this LLC file the Federal Schedule M-3 (federal Form 1065)?	●	Yes	No
X Is this LLC a direct owner of an entity that filed a federal Schedule M-3?	●	Yes	No
Y Does the LLC have a beneficial interest in a trust or is it a grantor of a Trust?	●	Yes	No

Attach schedule of trusts and federal identification numbers.

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1		
2	Purchases less cost of items withdrawn for personal use	2		
3	Cost of labor	3		
4	Additional IRC Section 263A costs. Attach schedule	4		
5	Other costs. Attach schedule	5		
6	Total. Add line 1 through line 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Schedule B, line 2	8		

9 a Check all methods used for valuing closing inventory:
(1) ☐ Cost (2) ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4 (3) ☐ Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) (4) ☐ Other. Specify method used and attach explanation _____
b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ☐
c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the LLC? ☐ Yes ☐ No
d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☐ No

Schedule B Income and Deductions**Caution:** Include **only** trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance	1c		
	2 Cost of goods sold (Schedule A, line 8)	2		
	3 GROSS PROFIT. Subtract line 2 from line 1c	3		
	4 Total ordinary income from other LLCs, partnerships, and fiduciaries. Attach schedule	4		
	5 Total ordinary loss from other LLCs, partnerships, and fiduciaries. Attach schedule	5		
	6 Total farm profit. Attach federal Schedule F (Form 1040)	6		
	7 Total farm loss. Attach federal Schedule F (Form 1040)	7		
	8 Total gains included on Schedule D-1, Part II, line 17 (gain only)	8		
	9 Total losses included on Schedule D-1, Part II, line 17 (loss only)	9		
	10 Other income. Attach schedule	10		
	11 Other loss. Attach schedule	11		
	12 Total income (loss). Combine line 3 through line 11	12		
Deductions	13 Salaries and wages (other than to members)	13		
	14 Guaranteed payments to members	14		
	15 Bad debts	15		
	16 Deductible interest expense not claimed elsewhere on return	16		
	17 a Depreciation and amortization. Attach form FTB 3885L \$ _____ b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance	17c		
	18 Depletion. Do not deduct oil and gas depletion	18		
	19 Retirement plans, etc.	19		
	20 Employee benefit programs	20		
	21 Other deductions. Attach schedule	21		
	22 Total deductions. Add line 13 through line 21	22		
	23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12	23		

Schedule T Nonconsenting Nonresident Members' Tax Liability

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Member's name	SSN, ITIN, or FEIN	Distributive share of income	Tax rate	Member's total tax due (see instructions)	Amount withheld by this LLC on this member – reported on Form 592-B	Member's net tax due

Total the amount of tax due. Enter the total here and on Side 1, line 4 _____

Attach additional sheets if necessary.

Schedule K Members' Shares of Income, Deductions, Credits, Etc.

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law				
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 3, line 23) . . .	1 ●						
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2						
	3 a Gross income from other rental activities	3a						
	b Less expenses. Attach schedule	3b						
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●				
	4 Portfolio income (loss). See instructions:							
	a Interest income	4a		●				
	b Dividend income	4b		●				
	c Royalty income	4c		●				
	d Net capital gain (loss) (Schedule D (568)).	4d						
	e Other portfolio income (loss). Attach schedule	4e		●				
5 Guaranteed payments to members	5		●					
6 a Total Gain under IRC Section 1231 (other than due to casualty or theft)	6a		●					
b Total Loss under IRC Section 1231 (other than due to casualty or theft)	6b		●					
7 a Total other income. Attach schedule	7a							
b Total other loss. Attach schedule.	7b							
Deductions	8 Charitable contributions. See instructions. Attach schedule	8						
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions.	9						
	10 Deductions related to portfolio income	10						
	11 Other deductions. Attach schedule	11						
Investment Interest	12 a Interest expense on investment debts	12a		●				
	b (1) Investment income included on lines 4a, 4b, 4c, and line 4e above.	12b(1)						
	(2) Investment expenses included on line 10 above.	12b(2)						
Credits	13 a Withholding on LLC allocated to all members	13a						
	b Low-income housing credit.	13b						
	c Credit(s) other than credits shown on line 13b related to rental real estate activities. Attach schedule	13c						
	d Credit(s) related to other rental activities. Attach schedule	13d						
	14 Other credits. See instructions. Attach schedule	14		●				
	a Total credits received. Add line 13b through line 14	14a						
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . .	15a						
	b Adjusted gain or loss	15b						
	c Depletion (other than oil and gas)	15c						
	d (1) Gross income from oil, gas, and geothermal properties.	15d(1)						
	(2) Deductions allocable to oil, gas, and geothermal properties. . . .	15d(2)						
	e Other adjustments and tax preference items. Attach schedule.	15e						
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a						
	b Type of expenditures	16b						
	17 Tax-exempt interest income	17						
	18 Other tax-exempt income	18		●				
	19 Nondeductible expenses	19						
	20 Distributions of money (cash and marketable securities)	20						
	21 Distribution of property other than money	21						
	22 Other items and amounts reported separately to members. See instructions. Attach schedule	22						
Analysis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a.	23		●				
b Analysis of members:		(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other	(f) LLC
Members			i. Active	ii. Passive				

Schedule L Balance Sheets. See the instructions for Schedule L, before completing Schedules L, M-1, and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Members' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return. Use total amount under California law.

If the partnership completed federal Schedule M-3 (federal Form 1065), see instructions.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize. ●		a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$	●
a Depreciation \$		8 Total of line 6 and line 7	
b Travel and entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5.	
c Annual LLC tax \$			
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Members' Capital Accounts. Use California amounts.

1 Balance at beginning of year		6 Distributions: a Cash. ●	
2 Capital contributed during year ●		b Property. ●	
3 Net income (loss) per books		7 Other decreases. Itemize. ●	
4 Other increases. Itemize. ●		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5.	

Schedule O Amounts from Liquidation used to Capitalize a Limited Liability Company. (Complete only if initial return box is checked on Side 1, Question I.)

Name of entity liquidated (if more than one, attach a schedule)

Type of entity: ● ☐ (1) C Corporation ☐ (2) S Corporation ☐ (3) Partnership ☐ (4) Limited Partnership ☐ (5) Sole Proprietor ☐ (6) Farmer

Entity identification number(s) ● FEIN ● SSN or ITIN ● Corporation ● SOS

Amount of liquidation gains recognized to capitalize the LLC ●

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2006 Limited Liability Company Return of Income**568**

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____.

A Principal business activity name (same as federal)	Limited liability company name (type or print) DBA _____		D Secretary of State file number ● _____	E Date business started in California ● _____
B Principal product or service (same as federal)	Number and street (or PO Box, rural route, or PMB no.) _____		F Enter total assets at end of year. See instructions. ● \$ _____	
C Principal business activity code (same as federal) ● _____	City _____	State _____	ZIP Code _____	
G Check accounting method: ● (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		H FEIN ● _____		
		I Check applicable box (1) <input type="checkbox"/> Initial return ● (2) <input type="checkbox"/> FINAL RETURN (3) <input type="checkbox"/> Amended return		

Enclose, but do not staple, any payment.	1 Total income from Limited Liability Company Income Worksheet. See instructions ●	1		
	2 Limited Liability Company fee. See instructions ●	2		
	3 2006 annual Limited Liability Company tax. See instructions ●	3		
	4 Nonconsenting nonresident members' tax liability from Schedule T (Side 3) ■	4		
	5 Total tax and fee. Add line 2, line 3, and line 4 ■	5		
	6 Amount paid with form FTB 3537 and 2006 form FTB 3522 ■	6		
	7 Overpayment from prior year allowed as a credit ■	7		
	8 Nonresident Withholding Credit. See instructions ■	8		
	9 Total payments. Add line 6, line 7, and line 8 ■	9		
	10 Tax and fee due. If line 5 is more than line 9, subtract line 9 from line 5 ■	10		
	11 Overpayment. If line 9 is more than line 5, subtract line 5 from line 9 ■	11		
	12 Amount of line 11 to be credited to 2007 tax or fee ■	12		
	13 Use Tax. See instructions ●	13		00
	14 Refund. If the total of line 12 and line 13 is less than line 11; subtract the total from line 11 ■	14		
15 Penalties and interest. See instructions ■	15			
16 Total amount due. Add line 10, line 12, line 13, and line 15, then subtract line 11 from the result ■	16			

Single Member LLC Information and Consent — Complete only if the LLC is disregarded.				Federal TIN/SSN ● _____	
Sole Owner's name (as shown on owner's return)				SOS File No. _____	
Street Address, City, State, and ZIP Code				Return filed with the FTB by the Owner ●	
Member's Consent Statement: I consent to the jurisdiction of the State of California to tax my LLC income and agree to file returns and pay tax as may be required by the Franchise Tax Board.				<input type="checkbox"/> (1) Form 540 <input type="checkbox"/> (5) Form 541 <input type="checkbox"/> (2) Form 100 <input type="checkbox"/> (6) Form 100S <input type="checkbox"/> (3) Form 565 <input type="checkbox"/> (7) Form 568 <input type="checkbox"/> (4) Other _____	
Signature ►	Date	Title			
Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			Telephone () _____	
	Signature of officer	Date	Paid preparer's SSN/PTIN		
Paid Preparer's Use Only	Paid preparer's signature ►	Date	Check if self-employed <input type="checkbox"/>	FEIN _____	
	Firm's name (or yours, if self-employed) and address			Telephone () _____	

J Enter the maximum number of members in the LLC at any time during the year. Attach a California Schedule K-1 (568) for each of these members	●		
K Is this LLC an investment partnership? See General Information O	●	Yes	No
L Is this LLC apportioning income to California using Schedule R?	●	Yes	No
M Was there a distribution of property or a transfer (for example, by sale or death) of an LLC interest during the taxable year?	●	Yes	No
O (1) If this LLC (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, was there a change in control or majority ownership of any one of them this year?	●	Yes	No
(2) For this taxable year, did this LLC (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or leased real property in California?	●	Yes	No
(3) If this LLC (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, has more than 50% of the LLC ownership interest cumulatively transferred in one or more transactions since March 1, 1975?	●	Yes	No
(Penalties May Apply – See Instructions.)			
P (1) Does the LLC have any foreign nonresident members?	●	Yes	No
(2) Does the LLC have any nonresident members?	●	Yes	No
(3) Were Form 592, Form 592-A, and Form 592-B filed for these members?	●	Yes	No
Q Are any members in this LLC also LLCs or partnerships?	●	Yes	No
S Is this LLC a member or partner in another LLC or partnership?	●	Yes	No
T Is this LLC a publicly traded partnership as defined in IRC Section 469(k)(2)?	●	Yes	No
U (1) Is this LLC a business entity disregarded for tax purposes?	●	Yes	No
(2) If “Yes,” see instructions and complete Side 1, Side 2 and Side 4. Are there credits or credit carryovers attributable to the disregarded entity?	●	Yes	No
V Has the LLC included a Reportable Transaction, Listed Transaction, or Registered Tax Shelter within this return? (See Instructions for definitions). If “Yes,” complete and attach federal Form 8886 and/or Form 8271 for each transaction	●	Yes	No
W Did this LLC file the Federal Schedule M-3 (federal Form 1065)?	●	Yes	No
X Is this LLC a direct owner of an entity that filed a federal Schedule M-3?	●	Yes	No
Y Does the LLC have a beneficial interest in a trust or is it a grantor of a Trust?	●	Yes	No

Attach schedule of trusts and federal identification numbers.

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1		
2	Purchases less cost of items withdrawn for personal use	2		
3	Cost of labor	3		
4	Additional IRC Section 263A costs. Attach schedule	4		
5	Other costs. Attach schedule	5		
6	Total. Add line 1 through line 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Schedule B, line 2	8		

9 a Check all methods used for valuing closing inventory:
(1) ☐ Cost (2) ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4 (3) ☐ Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) (4) ☐ Other. Specify method used and attach explanation _____
b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ☐
c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the LLC? ☐ Yes ☐ No
d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☐ No

Schedule B Income and Deductions**Caution:** Include **only** trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance	1c		
	2 Cost of goods sold (Schedule A, line 8)	2		
	3 GROSS PROFIT. Subtract line 2 from line 1c	3		
	4 Total ordinary income from other LLCs, partnerships, and fiduciaries. Attach schedule	4		
	5 Total ordinary loss from other LLCs, partnerships, and fiduciaries. Attach schedule	5		
	6 Total farm profit. Attach federal Schedule F (Form 1040)	6		
	7 Total farm loss. Attach federal Schedule F (Form 1040)	7		
	8 Total gains included on Schedule D-1, Part II, line 17 (gain only)	8		
	9 Total losses included on Schedule D-1, Part II, line 17 (loss only)	9		
	10 Other income. Attach schedule	10		
	11 Other loss. Attach schedule	11		
	12 Total income (loss). Combine line 3 through line 11	12		
Deductions	13 Salaries and wages (other than to members)	13		
	14 Guaranteed payments to members	14		
	15 Bad debts	15		
	16 Deductible interest expense not claimed elsewhere on return	16		
	17 a Depreciation and amortization. Attach form FTB 3885L \$ _____ b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance	17c		
	18 Depletion. Do not deduct oil and gas depletion	18		
	19 Retirement plans, etc.	19		
	20 Employee benefit programs	20		
	21 Other deductions. Attach schedule	21		
	22 Total deductions. Add line 13 through line 21	22		
	23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12	23		

Schedule T Nonconsenting Nonresident Members' Tax Liability

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Member's name	SSN, ITIN, or FEIN	Distributive share of income	Tax rate	Member's total tax due (see instructions)	Amount withheld by this LLC on this member – reported on Form 592-B	Member's net tax due

Total the amount of tax due. Enter the total here and on Side 1, line 4

Attach additional sheets if necessary.

Schedule K Members' Shares of Income, Deductions, Credits, Etc.

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 3, line 23) . . .	1	●	
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2		
	3 a Gross income from other rental activities	3a		
	b Less expenses. Attach schedule	3b		
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●
	4 Portfolio income (loss). See instructions:			
	a Interest income	4a		●
	b Dividend income	4b		●
	c Royalty income	4c		●
	d Net capital gain (loss) (Schedule D (568)).	4d		
	e Other portfolio income (loss). Attach schedule	4e		●
	5 Guaranteed payments to members	5		●
	6 a Total Gain under IRC Section 1231 (other than due to casualty or theft)	6a		●
	b Total Loss under IRC Section 1231 (other than due to casualty or theft)	6b		●
Deductions	7 a Total other income. Attach schedule	7a		
	b Total other loss. Attach schedule	7b		
	8 Charitable contributions. See instructions. Attach schedule	8		
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions.	9		
Investment Interest	10 Deductions related to portfolio income	10		
	11 Other deductions. Attach schedule	11		
	12 a Interest expense on investment debts	12a		●
Credits	b (1) Investment income included on lines 4a, 4b, 4c, and line 4e above.	12b(1)		
	(2) Investment expenses included on line 10 above	12b(2)		
	13 a Withholding on LLC allocated to all members	13a		
	b Low-income housing credit	13b		
	c Credit(s) other than credits shown on line 13b related to rental real estate activities. Attach schedule	13c		
	d Credit(s) related to other rental activities. Attach schedule	13d		
14 Other credits. See instructions. Attach schedule	14	●		
a Total credits received. Add line 13b through line 14	14a			
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . .	15a		
	b Adjusted gain or loss	15b		
	c Depletion (other than oil and gas)	15c		
	d (1) Gross income from oil, gas, and geothermal properties.	15d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties. . . .	15d(2)		
	e Other adjustments and tax preference items. Attach schedule.	15e		
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a		
	b Type of expenditures	16b		
	17 Tax-exempt interest income	17		
	18 Other tax-exempt income	18		●
	19 Nondeductible expenses	19		
	20 Distributions of money (cash and marketable securities)	20		
	21 Distribution of property other than money	21		
	22 Other items and amounts reported separately to members. See instructions. Attach schedule	22		
Analysis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a.	23		●

b Analysis of members:	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other	(f) LLC
		i. Active	ii. Passive				
Members							

Schedule L Balance Sheets. See the instructions for Schedule L, before completing Schedules L, M-1, and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Members' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return. Use total amount under California law.

If the partnership completed federal Schedule M-3 (federal Form 1065), see instructions.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize. ●		a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$	●
a Depreciation \$		8 Total of line 6 and line 7	
b Travel and entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5.	
c Annual LLC tax \$	●		
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Members' Capital Accounts. Use California amounts.

1 Balance at beginning of year		6 Distributions: a Cash. ●	
2 Capital contributed during year ●		b Property. ●	
3 Net income (loss) per books		7 Other decreases. Itemize. ●	
4 Other increases. Itemize. ●		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5.	

Schedule O Amounts from Liquidation used to Capitalize a Limited Liability Company. (Complete only if initial return box is checked on Side 1, Question I.)

Name of entity liquidated (if more than one, attach a schedule)

Type of entity: ● ☐ (1) C Corporation ☐ (2) S Corporation ☐ (3) Partnership ☐ (4) Limited Partnership ☐ (5) Sole Proprietor ☐ (6) Farmer

Entity identification number(s) ● FEIN ● SSN or ITIN ● Corporation ● SOS

Amount of liquidation gains recognized to capitalize the LLC ●

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Member's Share of Income, Deductions, Credits, etc.

K-1 (568)

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____

Member's identifying number

Member's name, address, city, state, and ZIP Code

LLC's FEIN
Secretary of State file number

LLC's name, address, city, state, and ZIP Code

A What type of entity is this member? •

- (1) ☐ Individual (5) ☐ General Partnership (9) ☐ IRA/Keogh/SEP
 (2) ☐ S Corporation (6) ☐ Limited Partnership (10) ☐ Exempt Organization
 (3) ☐ Estate/Trust (7) ☐ LLP (11) ☐ Disregarded Entity
 (4) ☐ C Corporation (8) ☐ LLC

B Is this member a foreign member? • ☐ Yes ☐ No
C Enter member's

 percentage (without
regard to special
allocations) of:

 (i) Before decrease
or termination

(ii) End of year

Profit sharing % • %
 Loss sharing % • %
 Ownership of capital % • %

D Member's share of liabilities:

Nonrecourse \$
 Qualified nonrecourse financing \$
 Other \$

E Tax shelter registration number
F (1) Check here if this is a publicly traded partnership

 as defined in IRC Section 469(k)(2) ☐
(2) Check here if this is an investment partnership

 (R&TC Sections 17955 and 23040.1) ☐
G Check here if this is: •

 (1) ☐ A final Schedule K-1 (568) (2) ☐ An amended Schedule K-1 (568)

H Is this member a nonresident of California? ☐ Yes • ☐ No
I Analysis of member's capital account: Check the box • (1) ☐ Tax Basis (2) ☐ GAAP (3) ☐ Section 704(b) Book (4) ☐ Other (explain)

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Member's share of line 3, line 4, and line 7 Form 568, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year, combine column (a) through column (d)
•	•	•	()	•

Caution: Refer to Member's Instructions for Schedule K-1 (568) before entering information from this schedule on your California return.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine col. (b) and col. (c)	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities			•	▶
	2 Net income (loss) from rental real estate activities			•	▶
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			•	▶
	b Dividends			•	▶
	c Royalties			•	▶
	d Net capital gain (loss)			•	▶
	e Other portfolio income (loss). Attach schedule			•	▶
	5 Guaranteed payments to members			•	▶
Deductions	6 a Total Gain under IRC Section 1231 (other than due to casualty or theft)			•	▶
	b Total Loss under IRC Section 1231 (other than due to casualty or theft)			•	▶
	7 a Total other income. Attach schedule			•	▶
	b Total other loss. Attach schedule			•	▶
	8 Charitable contributions				
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine col. (b) and col. (c)	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts				
	b (1) Investment income included on lines 4a, 4b, 4c, and 4e				
	(2) Investment expenses included on line 10				
Credits	13 a Total withholding (equals amount on Form 592-B if calendar year LLC)			●	▶
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule				
	d Credits related to other rental activities. See instructions. Attach schedule.				
	e Nonconsenting nonresident member's tax paid by LLC.				
	14 Other credits. Attach required schedules or statements.				
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas)				
	d (1) Gross income from oil, gas, and geothermal properties				
	(2) Deductions allocable to oil, gas, and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
	16 a Total expenditures to which an IRC Section 59(e) election may apply.				
Other	b Type of expenditures _____				
	17 Tax-exempt interest income				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money . .				
	22 Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions. \$ _____				

Table 1 — Member's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the member):

Interest	\$ _____	Sec. 1231 Gains/Losses	\$ _____	Capital Gains/Losses	\$ _____
Dividends	\$ _____	Royalties	\$ _____	Other	\$ _____

FOR USE BY APPORTIONING UNITARY MEMBERS ONLY – See instructions.

Table 2 — Member's share of distributive items.

- A. Member's share of the LLC's business income. See instructions. \$ _____
- B. Member's share of nonbusiness income from real and tangible personal property sourced or allocable to California.
- | | | | |
|------------------------|----------|-----------------|----------|
| Capital Gains/Losses | \$ _____ | Rents/Royalties | \$ _____ |
| Sec. 1231 Gains/Losses | \$ _____ | Other | \$ _____ |
- C. Member's distributive share of the LLC's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$	\$
Ending	\$	\$
Annual Rent Expense	\$	\$
Payroll	\$	\$
Sales	\$	\$

2006 Capital Gain or Loss

D (568)

Name as shown on return				Secretary of State (SOS) file no.	
				FEIN	
(a) Description of property, Example, 100 shares 7% preferred of "Z" Co.	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price See instructions.	(e) Cost or other basis See instructions.	(f) Gain (loss) (d) minus (e)
1					
1 Enter line 1, column (f) totals here				1	
2 Capital gain from installment sales, from form FTB 3805E, line 26 or line 37				2	
3 LLC's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations				3	
4 Capital gain distributions.				4	
5 Net capital gain (loss). Add line 1, line 2, line 3, and line 4. Enter total here and on Schedule K, line 4d, and each member's share on Schedule K-1 (568), line 4d				5	

2006 Depreciation and Amortization

3885L

Name as shown on return				Secretary of State (SOS) file no.			
						FEIN	

Intangibles placed in service after 12/31/05 (depreciation):			Depreciation of Assets			Amortization of Property		
(a) Description of property	(b) Date placed in service	(c) Cost or other basis	(d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	(g) Code section	(h) Period or percentage	(i) Amortization to this year
1								
1 Enter line 1, column (f) and column (i) totals here					1			

Depreciation

2 California depreciation for assets placed in service before January 1, 2006 2 _____

Note: Be sure to make adjustments for any basis differences.

3 Total California depreciation. Add line 1(f) and line 2 3 _____

Amortization

4 California amortization for intangibles placed in service before January 1, 2006 4 _____

Note: Be sure to make adjustments for any basis differences.

5 Total California amortization. Add line 1(i) and line 4 5 _____

6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 568, Schedule B, line 17a,
if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities 6 _____

7 IRC Section 179 expense deduction from worksheet, line 12 7 _____

8 Carryover of disallowed deduction to 2007. From worksheet, line 13 8 _____

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Instructions for Schedule D (568)

Capital Gain or Loss

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, go to our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Internet Access

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Access other state agencies' websites through the State Agency Index on California's Website at www.ca.gov.

Purpose

Use Schedule D (568), Capital Gain or Loss, to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any members. Do not use this form to report the sale of business property. For sales of business properties, use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies (LLCs) classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (568), line 3. Enter capital gains (losses) that are specially allocated to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., line 4d. Do not include these amounts on Schedule D (568). See the

instructions for Schedule K (568) and Schedule K-1 (568) for more information. Also, refer to the instructions for federal Schedule D (1065).

Nonresident and Part-Year Resident Partners, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency

Note: With the enactment of AB 1115 (Stats. 2001, Ch 920) capital loss carryover and capital loss limitations for nonresident members and part-year resident members, for the portion of the year they were nonresidents, are determined based upon California source income and loss items only for the computation of their California taxable income. Moreover, the character of their gains and losses on the sale or exchange of property used in trade or business or certain involuntary conversions (IRC Section 1231) are determined for purposes of calculating their California taxable income by netting California sources Section 1231 gains and losses only.

California law conforms to federal law for the recognition of gain on a constructive sale of property in which the LLC held an appreciated interest.

Qualified Small Business Stock

R&TC Section 18152.2 is similar to IRC Section 1202 regarding the exclusion of 50% of the gain on the sale of qualifying small business stock originally issued after August 10, 1993, that was held for more than five years. However, for California purposes, at least 80% of the issuing corporation's payroll must be attributable to employment located within California, and at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

R&TC Section 18038.5 also provides for the deferral of gain from the sale of small business stock that has been held for six months or more, if qualified replacement stock is purchased within 60 days after the sale giving rise to the gain. Report gain deferred from the sale of qualified small business stock in accordance with the instructions contained in Revenue Procedure 98-48.

Note: The LLC also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 7. Each member must determine if he or she qualifies for the gain at the member level.

Instructions for Form FTB 3885L

Depreciation and Amortization

A Purpose

Use form FTB 3885L, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 568, Limited Liability Company Return of Income. Attach form FTB 3885L to Form 568.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period.

In general, California conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- **Before January 1, 1987:** California disallowed depreciation under the federal Accelerated Cost Recovery System (ACRS). Continue to calculate California depreciation in the same manner as in prior years for those assets.
- **On or after January 1, 1987:** California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

Additional differences may occur for the following:

- **Luxury Automobile Depreciation:** California generally conforms to the federal 2003 increase (IRC Section 280F) for the limitation on luxury automobile depreciation. However, California does not conform to IRC Section 168(k) provisions (30% and 50% additional first year depreciation). In addition, SUVs and minivans built on a truck chassis are included in the definition of trucks and vans when applying the 6,000 pound gross weight limit.
- **Amortization of Certain Intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted

basis as of January 1, 1994, must be amortized over the remaining federal amortization period.

- **Qualified Indian Reservation Property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

Note: This list is not intended to be all-inclusive of the federal and state differences. For additional information, please refer to California's R&TC.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 2005, and amortization for intangibles placed in service after December 31, 2005

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 2005. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 2006

Enter total California depreciation for assets placed in service prior to January 1, 2006, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for intangibles placed in service before January 1, 2006

Enter total California amortization for intangibles placed in service prior to January 1, 2006, taking into account any differences in asset basis or differences in California and federal tax law.

Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the LLC has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 568, Schedule B, line 17a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the LLC should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of Partnership or an S Corporation.

Line 7 – Enter the Internal Revenue Code (IRC) Section 179 expense election amount from line 12 of the following worksheet.

These limitations apply to the LLC and each member.

Election to Expense Certain Tangible Property (IRC Section 179) Worksheet

Note: Follow the instructions on federal Form 4562 for listed property.

1	Maximum dollar limitation	1	\$ 25,000
2	Total cost of IRC Section 179 property placed in service during the taxable year	2	
3	Threshold cost of IRC Section 179 property placed in service during the taxable year	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for taxable year. Subtract line 4 from line 1. If zero or less, enter -0-	5	

(a) Description of property	(b) Cost	(c) Elected cost
6		

7	Listed property. Use federal Form 4562, Part V, line 29. Make any adjustments for California law and basis differences	7	
8	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 2005. See instructions for line 10 through line 13 on federal Form 4562	10	
11	Income limitation. Enter the smaller of line 5 or the aggregate of the LLC's items of income and expense described in IRC Section 702(a) from any business actively conducted by the LLC, other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c)	11	
12	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (568), line 9 and on form FTB 3885L, line 7	12	
13	Carryover of disallowed deduction to 2007. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885L	13	

Member's Instructions for Schedule K-1 (568)

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, visit our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense was claimed in a prior year by a partnership, limited liability company (LLC), or S corporation.

Members should follow federal reporting requirements as detailed in federal Form 1065, U.S. Return of Partnership Income, and Form 4797, Sale of Business Property instructions.

A Purpose

A limited liability company (LLC) that has elected to be treated as a partnership for tax purposes, uses Schedule K-1 (568) to report your distributive share of the LLC's income, deductions, credits, etc. Please keep the Schedule K-1 (568) for your records. Information from the Schedule K-1 (568) should be used to complete your California return. However, do not file the schedule with your California return. The LLC has filed a copy with the Franchise Tax Board (FTB).

As a member of the LLC, you are subject to tax on your distributive share of the LLC income, whether or not distributed.

The amount of loss and deduction you are allowed to claim on your California return may be less than the amount reported on Schedule K-1 (568). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the LLC and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you also must apply the passive activity loss and credit rules. It is the member's responsibility to consider and apply any applicable limitations. See Specific Instructions C, Loss Limitations.

You should also read the federal Schedule K-1 (1065) instructions before completing your California return with this Schedule K-1 (568) information.

For additional information on the treatment of LLC income, deductions, credits, etc., get the following federal publications:

- Publication 541, Partnerships, and
- Publication 535, Business Expenses.

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to your California return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

Internet Access

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Access other state agencies' websites through the State Agency Index on California's Website at www.ca.gov.

B Definitions

Member

An individual or entity owning an interest in the LLC whose potential personal liability for LLC debts is limited to the amount of money or other property that the member contributed or is required to contribute to the LLC.

A husband and wife that own 100% of an LLC as community property that is not treated as a corporation may elect to be a single member or for each spouse to be separate members. If the couple elects to be a single member the LLC will be a disregarded entity. If the spouses elect for each to be separate members, the LLC will be treated as a partnership for tax purposes.

Nonrecourse Loans

Liabilities of the LLC for which none of the members have assumed any personal liability.

Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a "qualified person."

California Business Situs

The place at which intangible personal property is employed as capital in California; or the place where the property is located if possession and control of the property is localized in connection with the taxpayer's business that is within this state so that substantial use or value attaches to the property.

Apportionment

The process by which business income from a trade or business is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the property (including rent), payroll, and sales factors of the apportioning trade or business.

Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Election

The ability to choose a particular accounting method for tax reporting purposes. Generally, the LLC decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California return and not by the LLC. These elections are made under the following IRC Sections, to which the R&TC conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness); and
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

C Reporting Information from Columns (d) and (e)

If the LLC derives income from activities conducted both within and outside California, the LLC will complete Schedule R, Apportionment and Allocation of Income, to determine the LLC income from California sources. Resident members will use only the information in column (c) and column (d) to report their share of the LLC's income or loss.

Nonresident, corporate, and other entity members must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (568). Special rules apply if a member and the LLC are engaged in a unitary business. See Cal. Code Regs., tit. 18 sections 17951 and 25137-1 for more information. Also see General Information E.

Nonresident, corporate, and other entity members (other than members that are unitary with the LLC) will use the information in columns (c), (d), and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Schedule S, Other State Tax Credit.

Nonapportioning LLCs do not need to fill out column (e) on Schedule K-1 (568) if the member is a resident and the "No" box is checked on Question H. However, the final determination of residency is made at the member level. If the LLC is uncertain as to the residency status of the member, it should fill out column (e) for that member.

Inconsistent treatment of items

Generally, members must report tax items shown on their Schedule K-1s and any attached schedules, the same way the LLC treated the items on its tax return. If the treatment on a member's original or amended tax return is inconsistent with the LLC's treatment, or if the LLC has not filed a tax return, the member must attach a statement with its original or amended tax return to identify and explain any inconsistency or to note that a LLC tax return has not been filed. If a member is required to attach this statement but fails to do so, the member may be subject to an accuracy related-penalty.

D Income Not from a Trade Or Business of the LLC (Nonbusiness Income)

If the LLC has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the member level. However, nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 23040, 25124, and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the LLC believes it is unitary with the member or if the LLC is uncertain whether it is unitary with the member. Non-unitary members should ignore the information in Table 2 and use column (e).

The source of income from all nonbusiness intangibles will depend on whether the member is required to apportion its income and whether the member is a corporation. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the member. If the member is a non-apportioning corporation the intangible income is from California sources unless it has acquired a business situs outside of this State (R&TC Section 23040).

However, for individuals, estates, and trusts that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in this state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Cal. Code Regs., tit. 18 section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the LLC, the intangible income will be included in column (e).

If the member is an apportioning taxpayer or is a corporation, Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual member, that income is not included in column (e) and is entered only in Table 1. The member must determine the source of such income by applying the rules described above.

E Unitary Members

Note: The following rules apply to corporations, individuals, and other entities that conduct a trade or business that is unitary with the LLC's trade or business (see Cal. Code Regs., tit. 18 section 17951, incorporating the provisions of section 25137 and regulations thereunder).

Unitary members cannot use the California source information reflected in column (e). Such members must use the information in Table 1 and Table 2 as described below and in Specific Line Instructions G and H.

The member's distributive share of LLC items is determined by applying the LLC rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or that is includible in the member's business income subject to apportionment is made in accordance with Cal. Code Regs., tit. 18 section 25137-1 if the member, or the LLC, or both, have income from sources within and outside this state. The member, in computing net income for its tax accounting period, must include its distributive share of LLC items referred to above for any LLC taxable year ending within or with the member's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business

If the LLC's activities and the member's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the member's distributive share of the LLC's apportionment factors with the factors of the member for any LLC year ending within the member's tax accounting period. Combined business income is then apportioned by using a 3- or 4-factor formula consisting of the combined property, payroll, and a single or double-weighted sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (member's share of the LLC's gross business receipts plus the member's own gross business receipts) are more than 50% from agricultural, extractive, savings and loans, banking, or financial business activities.

If you are a member that is unitary with the LLC, use Table 2 to compute your factors, applying the rules shown below (see Cal. Code Regs., tit. 18 section 25137-1 for examples). Members that are unitary with the LLC should perform the following steps:

1. Combine your distributive share of the LLC's business income with your own business income to determine total business income.
2. Compute property, payroll, and sales factors by combining your distributive share of the LLC's factors from Table 2, Part C, with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

1. Unitary Member's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Cal. Code Regs., tit. 18 sections 25130 and 25131. Also apply the following special rules:

- A. Include in the denominator of your property factor your distributive share of the LLC's beginning and ending balances of real and tangible personal property owned (if rented, multiply rent by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of the member's property factor the value of such property that is described in 1A (above) that is located in California. See Table 2, Part C.
- C. See Cal. Code Regs., tit. 18 section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the member to the LLC or vice versa.

2. Unitary Member's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Cal. Code Regs., tit. 18 sections 25132 and 25133. Apply the following special rules:

- A. Include in the denominator of your payroll factor your distributive share of the LLC's payroll used to produce business income. See Table 2, Part C; and
- B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

3. Unitary Member's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with Cal. Code Regs., tit. 18 sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the LLC's sales that give rise to business income. See Table 2, Part C;
- B. Include in the numerator of your sales factor the amount of such sales described in 3A attributable to California; and
- C. Eliminate intercompany sales as follows:
 - Sales by the member to the LLC to the extent of the member's interest in the LLC; or
 - Sales by the LLC to the member not to exceed the member's interest in all LLC sales. See Cal. Code Regs., tit. 18 section 25137-1(f)(3).

Distributive Items of Nonbusiness Income for a Unitary Member

Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Schedule K-1 (568), column (e) data is not used

by a unitary member, unitary members must make certain to separately include such items as California source income.

Specific Instructions

A Questions and Items

The LLC completes the questions and items on each Schedule K-1 (568) for all its members. For more information, see the instructions for federal Schedule K-1 (1065).

B Schedule K-1 (568)

Important Note to Members: If your Schedule K-1 (568) reports losses and/or deductions, you must first apply the basis, at-risk, and passive activity limitations before such losses/deductions can be deducted on your California return. See Specific Instructions C, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis.

Note: If your return is ever examined, you may be required to provide your computations and the supporting documents for your membership interest.

If you are an individual member, the amounts in column (c), Adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments – Residents, or Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the LLC knows that you are a California resident, it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual member, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (568) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for federal Schedule K-1 (1065) for more information.

C Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (568) reflect your distributive share of income or loss from the LLC's business or rental operations. If you have losses from the LLC, there are three potential limitations imposed on losses before you may deduct them on your return. These limitations and the order in which they must be applied are:

- Basis limitations (IRC Section 704);
- At-risk limitations (IRC Section 465); and
- Passive activity loss and credit limitations (IRC Section 469).

Each of these limitations is discussed separately below.

Note: Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

Basis Rules

Generally, California tax law conforms to federal tax law concerning basis limitation. You may not claim your share of an LLC loss (including a capital loss) that is greater than the adjusted basis of your LLC interest at the end of the LLC's taxable year.

The LLC is not responsible for keeping the information needed to compute the basis of your LLC interest. Although the LLC does provide you with an analysis of the changes to your capital account on your Schedule K-1 (568), Item I, that information is based on the LLC's books and records and should not be used to compute your basis.

You can compute the basis of your LLC interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis may include:

- Money and the adjusted basis of property you contributed to the LLC;
- Your distributive share of the LLC's income; and
- Your distributive share of the increase in the liabilities of the LLC (and/or your individual liabilities caused by your assumption of LLC liabilities).

Items that decrease your basis, but not below zero, may include:

- Money and the adjusted basis of property distributed to you;
- Your share of the LLC's losses; and
- Your share of the decrease in the liabilities of the LLC (and/or your individual liabilities assumed by the LLC).

Note: This is not a complete list of items and factors that determine basis. Get federal Publication 541, Partnerships, for a complete discussion of how to determine the basis of your LLC interest.

At-Risk Rules

The at-risk rules limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17267.2, 17267.6, and 17268) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the LLC; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the instructions for federal Schedule K-1 (1065), At-Risk Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

Passive Activity Loss and Credit Rules

IRC Section 469 limits the deduction of certain losses and credits. California law generally conforms to this federal provision. These rules apply to members who have a passive activity loss or credit for the taxable year.

For California purposes, passive loss limitations apply to individuals, estates, trusts (other than grantor trusts), closely held corporations, and S corporations.

Even though the passive loss rules do not apply to grantor trusts, partnerships, and LLCs, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the member does not materially participate or a rental real estate activity in which the member does not actively participate. An LLC may have more than one activity. Each member must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates, trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (568), line 1 and line 14, are normally passive activity income (loss) or credits from the trade or business of the LLC if you are a member who did not materially participate in the trade or business activities of the LLC. The amounts reported on Schedule K-1 (568), line 2, line 3, and line 13b are from rental activities of the LLC and are passive activity income (loss) or credits to all members. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The LLC will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, members who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold, IRC Section 469(k). See the instructions for form FTB 3801 and form FTB 3802 for rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

See the instructions for federal Schedule K-1 (1065), Passive Activity Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

D Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an LLC that is an investment partnership if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident member; or
- Any other entity in which the nonresident member owns an interest that is separate and distinct from the investment activity of the LLC and that is conducted in California.

If you are a corporate member, the amounts in column (e) will generally not be taxable in California provided the income from the LLC is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the LLC or is engaged in a unitary business with another corporation or partnership that participates in the management of the investment activities of the LLC; or
- Has income attributable to sources within California other than income from the investment partnership;

Then the corporation will be taxable on its distributive share of California source income of the LLC. See R&TC Section 23040.1 for more information.

Specific Line Instructions

The IRS revised federal Schedule K-1 (1065). As a result of the revision, lines 4 through 11 (income and deductions) of federal Schedule K-1 (1065) and California Schedule K-1 (568) are no longer in agreement. Be sure to transfer the appropriate amounts to your California Schedule K-1 (568).

Enter the difference between federal and California amounts from column (c) on Schedule CA (540) if you are a resident or on Schedule CA (540NR) if you are a nonresident or part-year resident. Also, if you are a nonresident or part-year resident, enter California source amounts from the Schedule K-1 (568), column (e), on your Schedule CA (540NR), column E.

F(1) – If this box is checked, the LLC is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

F(2) – If this box is checked, the LLC qualifies as an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Line Instructions D for additional information.

Nonresident and Part-Year Resident Members, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency. Part-year resident members must consider their period of residency and nonresidency in the computation of total California income.

Note: The specific line instructions below that instruct you to enter information from Schedule K-1 (568), column (d), on other forms, apply to resident members. When the instructions make reference to column (d), nonresident members should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

A Income (Loss)

Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the LLC. For individual members, where this amount is reported depends on whether or not this amount is a passive activity.

If, in addition to this passive activity income, you have a passive activity loss from this LLC or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

Note: If the LLC income is from activities both within and outside California, the amount nonresidents or corporate members must report on their

California return is a function of the LLC's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the LLC. See Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 for more information. In addition, see General Information E.

Line 2 – Net Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all members. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the LLC will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special \$25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Schedule K-1 (1065) Specific Instructions for box 2, item 1, and item 2 for more information.

Note: Report any California adjustment amount from column (c) on Schedule CA (540 or 540NR) if you are a qualified investor reporting a qualified low-income housing project loss.

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this LLC or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

Line 3 – Net Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all members.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this LLC or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

Line 4a through Line 4e – Portfolio Income (Loss)

- Line 4a, enter the amount of interest income from federal Schedule K-1 (1065), box 5;
- Line 4b, enter the amount of dividend income from federal Schedule K-1 (1065), box 6a and box 6b;
- Line 4c, enter the amount of royalties from federal Schedule K-1 (1065), box 7;
- Line 4d, enter the amount of net capital gain (loss) from federal Schedule K-1 (1065), box 8 and box 9a; and
- Line 4e, enter the amount of other portfolio income from federal Schedule K-1 (1065), box 11.

Portfolio income (loss), referred to as "portfolio" in these instructions, is generally not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend, royalty income, and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (568), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) — Report on Schedule CA (540 or 540NR), line 8, column B or column C, whichever is applicable;
- Line 4b, column (c) — Report on Schedule CA (540 or 540NR), line 9, column B or column C, whichever is applicable;
- Line 4c, column (c) — Report on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable;
- Line 4d, column (d) — Report on Schedule D (540 or 540NR); and
- Line 4e, column (d) — Report on applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount

reported on line 4d or line 4e, column (d), is a passive activity amount, the LLC should identify the amount.

The LLC uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The LLC should attach a schedule to Schedule K-1 (568) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the LLC is a residual interest holder.

If the LLC has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The LLC will also report your share of "excess inclusion" and your share of IRC Section 212 expenses. If you itemize your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction.

Line 5 – Guaranteed Payments to Members

Enter the amount of guaranteed payments to members from federal Schedule K-1 (1065), box 4.

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (568), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Line 6 – Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)

Enter the amount of net gain (loss) under IRC Section 1231 from federal Schedule K-1 (1065), box 10.

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you, as a member, did not materially participate, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount report it on Schedule D-1, line 2, column (g). You do not have to complete column (b) through column (f). Write "From Schedule K-1 (568)" across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount report the gain on Schedule D-1, line 2, column (g), and be sure to see "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount see "Passive Loss Limitations" in the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 7 – Other Income (Loss)

Enter the amount of other income (loss) from federal Schedule K-1 (1065), box 11.

Amounts reported on this line are other items of income (loss) not included on line 1 through line 6. The LLC should give you a description for each of these items.

Use the following instructions to:

- Report income or gain (not losses) from passive activities; or
- Report income, gain, or losses from all other passive activities.

If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 7 items may include:

- LLC gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Any income, gain, or loss to the LLC under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10;

- Net gain or loss from involuntary conversions due to casualty or theft. The LLC will provide a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 37, column (b)(i), column (b)(ii), and column (c); and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5, and issued after August 10, 1993). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedule K (568) and Schedule K-1 (568). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 7, column (c).

B Deductions

Line 8 – Charitable Contributions

The LLC will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040 for more information.

Note: California has not conformed to any of the provisions of the Katrina Emergency Relief Act of 2005.

If there is an amount on Schedule K-1 (568), line 8, column (c), enter this amount on Schedule CA (540 or 540NR), line 39.

Line 9 – Expense Deduction for Recovery Property

Enter the amount of expense deduction for recovery property from federal Schedule K-1 (1065), box 12.

For California the maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$25,000. The \$25,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

Note: Federal limitation amounts are different than California limitation amounts.

The LLC will provide information on your share of the IRC Section 179 deduction and of the cost of the LLC's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (568), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Refer to R&TC Sections 17267.2, 17267.6, and 17268 on how to figure the expense deduction for recovery property in an economic development area.

Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (568), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amounts should not be reported on Schedule CA (540 or 540NR), the LLC should identify these amounts.

Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8 through line 10. If there is an amount on Schedule K-1 (568), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

Enter the amount of other deductions from federal Schedule K-1 (1065), box 13.

See the instructions for federal Schedule K-1 (1065), box 13, for examples of other deductions. Also get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for differences between federal and state tax law for certain deductions.

C Investment Interest

If the LLC paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Line 12a – Interest Expense on Investment Debts

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 12b(1) & Line 12b(2) – Investment Income and Investment Expenses

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

Caution: The amounts shown include only investment income and expenses included on lines 4a, 4b, 4c, 4e, and 10 of this Schedule K-1 (568). The LLC should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (568). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this LLC.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

D Credits

If you have credits that are passive activity credits, complete form FTB 3801-CR Passive Activity Credit Limitations (corporations use form FTB 3802), in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 13a – Total Withholding

Total Withholding is the sum of your distributive share of withholding on payments to the LLC by another entity, (allocated to all members according to their respective LLC interests), plus withholding on you as a domestic or foreign nonresident member. If there is a pass-through withholding credit from another entity or taxes were withheld on you by the LLC, the LLC must provide a completed Form 592-B, Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California return to claim the amount withheld. See FTB Pub. 1017, Nonresident Withholding Partnership Guidelines for more information. The amount shown on Form 592-B should be claimed on:

- Form 540, California Resident Income Tax Return, line 38; or
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return (Long Form), line 44; or
- Form 541, California Fiduciary Income Tax Return, line 31; or
- Form 109, California Exempt Organization Business Income Tax Return, line 22; or
- Form 100, California Corporation Franchise or Income Tax Return, line 34; or
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Schedule K-1 (568) may not be used to claim the withholding credit. If the LLC is not on a calendar year, the amount on line 13a may not match the amount on Form 592-B because of the difference in accounting periods.

Line 13b – Low-Income Housing Credit

Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. However, the passive activity credit limitations of IRC Section 469 may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

Caution: You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under IRC Section 502 of the Tax Reform Act of 1986.

Line 13c – Other Credits Related to Rental Real Estate Activities

The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided with an attached schedule.

Line 13d – Credits Related to Other Rental Activities

Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line with an attached schedule.

Line 13e – Nonconsenting Nonresident Member's Tax Paid by LLC

This line shows any income tax paid on your behalf by the LLC if, as a nonresident member, you did not sign form FTB 3832, Limited Liability Company's Nonresident Members' Consent, consenting to California's jurisdiction to tax your distributive share of the LLC income attributable to California sources.

This line also shows any income tax paid on behalf of your LLC by another LLC of which your LLC is a member. This applies if form FTB 3832, Limited Liability Company Nonresident Members' Consent, is not signed on behalf of your LLC. This means that your LLC is not consenting to California's jurisdiction to tax your LLC's distributive share of another LLC's income attributable to California sources.

Note: You must attach a copy of Schedule K-1 (568) to your California tax return to claim the tax paid by the LLC on your behalf.

For taxable years beginning on or after January 1, 2005, the tax may be reduced by the amount of tax previously withheld and paid by the LLC with respect to each nonconsenting, nonresident member.

If there was income tax paid on behalf of your LLC, you must attach a copy of the following to your California return to claim your share of the tax paid by another LLC on behalf of your LLC:

- The Schedule K-1 (568) issued to your LLC by another LLC.
- The Schedule K-1 (568) issued by your LLC.

Line 14 – Other Credits

This line is used to report information you need to compute pass-through credits and other items that are not includable on 13a through 13d but are related to the trade or business activity. The LLC should provide a schedule and/or statement explaining any items.

Credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Farmworker Housing Credit-Construction. Use credit code 207.
- Joint Strike Fighter Credit. Get form FTB 3534.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Tax Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Solar or Wind Energy System Credit. Get form FTB 3508.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

Note: The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d, and line 14. Line 13b, line 13c, and line 13d credits are related to the rental activities of the LLC. Line 14 credits are related to the trade or business activities of the LLC. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules are the:

- Research credit; and
- Low-income housing credit.

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. See form FTB 3801-CR for more information.

The LLC can include on line 14 your distributive share of net income taxes paid to other states by the LLC. Subject to the limitations of R&TC Section 18006, members may claim a credit against their individual tax for net income taxes paid by the LLC to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S for more information.

Reminder: All of these forms and many others are available from our Website at www.ftb.ca.gov.

E Adjustments and Tax Preference Items

Line 15a through Line 15e column (d)

Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations; or Schedule P (100W), Alternative Minimum Tax and Credits Limitations — Water's-Edge Filers. For additional information, see the instructions for federal Schedule K-1 (1065), Alternative minimum tax (AMT) items box 17.

F Other

Line 16 through Line 19

See the federal instructions for Schedule K-1 (1065), box 18 through box 20. The LLC should give you a description and the amount of your share for each item applicable to California in this category.

Line 22 — Supplemental Information

The LLC will provide supplemental information required to be reported to you on this line. If the LLC is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA, or TTA, it will give you the business income, and business capital gains and losses, apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA, on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The LLC may have provided an amount showing your proportionate interest in the LLC's aggregate gross receipts, less returns and allowances on this line. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" is defined as an individual, estate, or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, LLC, S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this LLC to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of pass-through entities gross receipts in which the taxpayer holds an interest.

"Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for a listing of items of nonconformity for individuals.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on Schedule K-1 as supplemental information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (1065) for the reporting requirements.

G Table 1

Generally, nonbusiness interest and dividends are sourced to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning members, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 25126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (568). For additional information, see General Information E.

H Table 2

The final determination of unity is made at the member level.

If the member and the LLC are engaged in a single unitary business, or if the LLC is uncertain as to whether it is unitary with the member, the LLC will furnish the information on Table 2.

The member's share of the LLC's business income is entered on Table 2, Part A. The member then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Part B, reflects the member's share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information on sourcing intangibles, see R&TC Sections 25124 and 25125, and Cal. Code Regs., tit. 18 sections 17951-1, 17951-2, and 17951-3.

The member's share of the LLC's property, payroll, and sales factors is in Table 2, Part C. The member combines its apportionment factors with the apportionment factors of the LLC and uses the revised factor to compute its business income apportioned to California. For further information, see General Information D.

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Visit our Website:

www.ftb.ca.gov

2006

Limited Liability Company Nonresident Members' Consent

3832

For use by limited liability companies (LLCs) with one or more nonresident members. Attach to Form 568 and give a copy to each nonresident member. Use additional sheets if necessary. Separate forms FTB 3832 for each nonresident member (or groups of nonresident members) may be used.

Limited liability company name

Secretary of State file number

FEIN

Note: Completion of this form does not satisfy the requirements for filing a California income tax return. See General Information C.

List below the names and identification numbers of nonresident members of record at the end of the LLC's taxable year.

Number	Nonresident member's name	I consent to the jurisdiction of the State of California to tax my distributive share of the LLC income attributable to California sources.		Nonresident member's SSN, ITIN, or FEIN
		Signature	Date	
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

List below the names and identification numbers of nonresident members who sold or transferred their ownership interests before the end of the LLC's taxable year.

Number	Nonresident member's name	I consent to the jurisdiction of the State of California to tax my distributive share of the LLC income attributable to California sources.		Nonresident member's SSN, ITIN, or FEIN
		Signature	Date	
1				
2				
3				
4				
5				

A Purpose

Single member LLCs do not complete form FTB 3832. A Single member LLC consents to be taxed under California jurisdiction by signing the Single Member LLC Information and Consent on Form 568. Multiple member LLCs must complete and sign form FTB 3832.

When a multiple member LLC has one or more members who are nonresidents of California, use form FTB 3832 to:

- List the names and social security numbers, individual taxpayer identification number (ITIN), federal employer identification numbers (FEIN) of all such members; and
- Obtain the signature of each nonresident member evidencing consent to the jurisdiction of the State of California to tax that member's distributive share of income attributable to California sources.

If a member fails to sign a form FTB 3832, the LLC is required to pay tax on the member's distributive share of income at that member's highest marginal rate. Any amount paid by the LLC will be considered

a payment made by the member (California Revenue and Taxation Code Section 18633.5). See the Limited Liability Company Tax Booklet, Form 568 and Instructions, for more information.

Note: If the nonresident member has a spouse, the spouse must also sign form FTB 3832.

B When to File

File form FTB 3832:

- For the first taxable period for which the LLC became subject to tax with nonresident members; or
- For any taxable period during which the LLC had a nonresident member who has not signed a form FTB 3832.

C Nonresidents Who Must File a California Return

Nonresident members (individuals, estates, trusts, corporations, etc.) are required to file the appropriate California tax returns, in addition to signing a form FTB 3832. An individual nonresident must file a

California nonresident or part-year resident return if the individual had income from California sources and:

- Was single or unmarried at the end of 2006 and the individual's gross income from all sources was more than \$13,713; or adjusted gross income from all sources was more than \$10,970; or
- Was married at the end of 2006, and the individual and spouse had a combined gross income from all sources of more than \$27,426; or adjusted gross income from all sources of more than \$21,940; or
- Owed \$1 or more of California tax.

Get Form 540NR Nonresident or Part-Year Resident Booklet for additional information.

D Group Nonresident Member Return

Certain nonresident members of an LLC doing business in California may elect to file a group nonresident return using Form 540NR (Long). For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

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Visit our Website:

www.ftb.ca.gov

2006

Limited Liability Company Nonresident Members' Consent

3832

For use by limited liability companies (LLCs) with one or more nonresident members. Attach to Form 568 and give a copy to each nonresident member. Use additional sheets if necessary. Separate forms FTB 3832 for each nonresident member (or groups of nonresident members) may be used.

Limited liability company name

Secretary of State file number

FEIN

Note: Completion of this form does not satisfy the requirements for filing a California income tax return. See General Information C.

List below the names and identification numbers of nonresident members of record at the end of the LLC's taxable year.

Number	Nonresident member's name	I consent to the jurisdiction of the State of California to tax my distributive share of the LLC income attributable to California sources.		Nonresident member's SSN, ITIN, or FEIN
		Signature	Date	
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

List below the names and identification numbers of nonresident members who sold or transferred their ownership interests before the end of the LLC's taxable year.

Number	Nonresident member's name	I consent to the jurisdiction of the State of California to tax my distributive share of the LLC income attributable to California sources.		Nonresident member's SSN, ITIN, or FEIN
		Signature	Date	
1				
2				
3				
4				
5				

A Purpose

Single member LLCs do not complete form FTB 3832. A Single member LLC consents to be taxed under California jurisdiction by signing the Single Member LLC Information and Consent on Form 568. Multiple member LLCs must complete and sign form FTB 3832.

When a multiple member LLC has one or more members who are nonresidents of California, use form FTB 3832 to:

- List the names and social security numbers, individual taxpayer identification number (ITIN), federal employer identification numbers (FEIN) of all such members; and
- Obtain the signature of each nonresident member evidencing consent to the jurisdiction of the State of California to tax that member's distributive share of income attributable to California sources.

If a member fails to sign a form FTB 3832, the LLC is required to pay tax on the member's distributive share of income at that member's highest marginal rate. Any amount paid by the LLC will be considered

a payment made by the member (California Revenue and Taxation Code Section 18633.5). See the Limited Liability Company Tax Booklet, Form 568 and Instructions, for more information.

Note: If the nonresident member has a spouse, the spouse must also sign form FTB 3832.

B When to File

File form FTB 3832:

- For the first taxable period for which the LLC became subject to tax with nonresident members; or
- For any taxable period during which the LLC had a nonresident member who has not signed a form FTB 3832.

C Nonresidents Who Must File a California Return

Nonresident members (individuals, estates, trusts, corporations, etc.) are required to file the appropriate California tax returns, in addition to signing a form FTB 3832. An individual nonresident must file a

California nonresident or part-year resident return if the individual had income from California sources and:

- Was single or unmarried at the end of 2006 and the individual's gross income from all sources was more than \$13,713; or adjusted gross income from all sources was more than \$10,970; or
- Was married at the end of 2006, and the individual and spouse had a combined gross income from all sources of more than \$27,426; or adjusted gross income from all sources of more than \$21,940; or
- Owed \$1 or more of California tax.

Get Form 540NR Nonresident or Part-Year Resident Booklet for additional information.

D Group Nonresident Member Return

Certain nonresident members of an LLC doing business in California may elect to file a group nonresident return using Form 540NR (Long). For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

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Visit our Website:

www.ftb.ca.gov

Instructions for Form FTB 3537

Automatic Extension for LLCs

General Information

California does not require the filing of written extensions. If a limited liability company (LLC) cannot file Form 568, Limited Liability Company Return of Income, by the return due date, the LLC is granted an automatic six-month extension.

If the tax return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or by October 15, 2007 (calendar year), the automatic extension will apply.

However, an extension of time to file is **not** an extension of time to **pay** the LLC fee or the nonconsenting nonresident members' tax.

Only use form FTB 3537 if:

- The LLC cannot file Form 568 by the due date; and
- Tax or fees are owed for 2006.

If tax or fees are not owed, there is nothing to file at this time. **Do not** complete or mail this voucher.

If tax or fees are owed, complete the voucher below. Mail the voucher along with the check or money order payable to the Franchise Tax Board by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 16, 2007 (calendar year), to avoid late payment penalties and interest.

LLCs electing to be taxed as corporations should use form FTB 3539, Automatic Extension for Corps and Exempt Orgs.

Caution: Do not use this form if you are paying the \$800 annual LLC tax. Instead use form FTB 3522, LLC Tax Voucher.

How to Complete Form FTB 3537

Enter all the information requested on the payment voucher. To ensure the timely and proper application of the payment to the LLC's account, enter the California Secretary of State (SOS) file number (assigned upon registration with the SOS) and the federal employer identification number (FEIN).

Private Mail Box

Include the Private Mail Box (PMB) in the address field. Write the acronym "PMB" first, then the box number.

Example: 111 Main Street PMB 123.

Side 1

Box 1, LLC fee due – This is the amount you expect to enter on Form 568, Side 1, line 2. Use the chart located in the Limited Liability Company Tax Booklet to estimate the LLC fee.

Box 2, Member's tax due – Enter the amount from Side 2. See the Limited Liability Company Tax Booklet (Specific Instructions – Schedule T) for the proper calculation of this tax.

Box 3, Amount of payment – Enter the total of box 1 and box 2.

Side 2

List the name, social security number (or ITIN), or FEIN for each nonconsenting nonresident member that did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent.

Where to File

Make check or money order payable to "Franchise Tax Board." Write the SOS file number, FEIN, and "2006 FTB 3537" on the check or money order. Detach the payment voucher portion from the bottom of the page. Enclose, but **do not** staple your payment to the voucher and mail to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

Note: Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

If no payment is due, do not mail.

Penalties and Interest

If the LLC fails to pay its total tax liability by the due date of the tax return, a late payment penalty and interest will be added to the tax due. To avoid late payment penalties and interest, the LLC's tax liability must be paid by the 15th day of the 4th month, following the close of the taxable year. The late payment penalty may be waived where 90% of the tax shown on the return is paid by the original due date of the return.

Internet Access

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Access other state agencies' Websites through the State Agency Index on the California Website at www.ca.gov.

✂ DETACH HERE IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM DETACH HERE ✂

TAXABLE YEAR

Automatic Extension for LLCs

CALIFORNIA FORM

2006

3537 (LLC)

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____.

Limited liability company name

Secretary of State (SOS) file number

DBA

FEIN

Present address - number and street, PO Box, rural route, or PMB no.

(Calendar year –
File and Pay by April 16, 2007) **Box 1 – LLC fee due**

City

State

ZIP Code

Box 2 – Member's tax due (Side 2)

Contact Telephone No.



()

Box 3 – Amount of payment (add Box 1 and 2)

DO NOT USE THIS FORM TO PAY
THE ANNUAL LLC TAX.

If amount of payment is
zero, do not mail form } ➤

Voucher at bottom of page


DETACH HERE
IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM
DETACH HERE


Limited liability company name	Secretary of State (SOS) file number	FEIN
--------------------------------	--------------------------------------	------

Nonresident member(s) that did not sign form FTB 3832:
Taxable Year 2006

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Member's name	SSN, ITIN, or FEIN	Distributive share of income	Tax rate	Member's total tax due (see instructions)	Amount withheld by this LLC on this member – reported on Form 592-B)	Member's net tax due

Total member's tax due. Enter this amount in Box 2 on Side 1 (This is the amount you expect to enter on Form 568, Side 1, line 4) \$
Attach additional sheets if necessary.

Instructions for Form FTB 3522

LLC Tax Voucher

General Information

Form FTB 3522 is used to pay the annual limited liability company (LLC) tax of \$800 for taxable year 2007. An LLC should use this form if it:

- Has articles of organization accepted by the California Secretary of State (SOS);
- Has a certificate of registration issued by the SOS; or
- Is doing business in California.

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Access other state agencies' Websites through the State Agency Index on California's Website at www.ca.gov.

Who Must Pay the Annual LLC Tax

Every LLC that is doing business in California or that has articles of organization accepted or a certificate of registration issued by the SOS is subject to the annual LLC tax of \$800. The tax must be paid for each taxable year until a certificate of cancellation of registration or of articles of organization is filed with the SOS.

Note: For taxable years beginning on or after January 1, 2003, an LLC as described in Internal Revenue Code Section 501(c)(2) and 501(c)(25) and California Revenue and Taxation Code Sections 23701h and 23701x is exempt from the annual LLC tax.

How to Complete Form FTB 3522

Enter all the information requested on this form. To ensure the timely and proper application of the payment to the LLC's account, enter the SOS file number (assigned upon registration with the SOS), and the federal employer identification number (FEIN).

Note: Include the Private Mail Box (PMB) in the address field. Write the acronym "PMB" first, then the box number.

Example: 111 Main Street PMB 123.

Where to Mail

Make a check or money order payable to "Franchise Tax Board." Write the SOS file number, FEIN, and "2007 FTB 3522" on the check or money order. Detach the payment voucher from the bottom of the page. Enclose but **do not** staple your payment to the voucher and mail to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0631

Note: Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

When to Pay the Annual LLC Tax

The annual LLC tax is due and payable **on or before the 15th day of the 4th month** after the **beginning** of the LLC's taxable year (fiscal year) or April 16, 2007 (calendar year).

Note: The first taxable year of an LLC that was not previously in existence begins when the LLC is organized or registered with the California Secretary of State.

If the 15th day of the 4th month of an existing foreign LLC's taxable year has passed before the foreign LLC commences business in California or registers with the SOS, the annual LLC tax should be paid immediately after commencing business or registering with the SOS.

Example: LLC1, a newly-formed calendar year taxpayer, organizes as an LLC in Delaware on June 1, 2007. LLC1 registers with the SOS on August 16, 2007, and begins doing business in California on August 17, 2007. Because LLC1's initial taxable year began on June 1, 2007, the annual LLC tax is due September 15, 2007 (the 15th day of the 4th month of the short period taxable year). LLC1's short period (June 1, 2007-December 31, 2007) tax return is due April 15, 2008. The annual tax payment for tax year 2008, with form FTB 3522 also is due April 15, 2008.

Penalties and Interest

If the LLC fails to pay its annual tax by the 15th day of the 4th month after the beginning of the taxable year, a late payment penalty plus interest will be assessed for failure to pay the annual LLC tax by the due date. The late payment penalty may be waived where 90% of the tax shown on the return is paid by the original due date of the return, but not less than the annual tax. The penalty and interest will be computed from the due date of the tax to the date of payment.

Late Payment of Prior Year Annual LLC Tax

If a prior year LLC tax of \$800 was not paid on or before the 15th day of the 4th month after the beginning of the taxable year, the tax should be paid as soon as possible, using the appropriate taxable year form FTB 3522. **Do not** use any other form for payment of the tax. This will assure proper application of the payment to the LLC's account.

✂ DETACH HERE IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM DETACH HERE ✂
DUE 15TH DAY OF 4TH MONTH OF TAXABLE YEAR (fiscal year)
OR FILE AND PAY BY APRIL 16, 2007 (calendar year).

TAXABLE YEAR

CALIFORNIA FORM

2007 LLC Tax Voucher

3522

For calendar year 2007 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____.
Limited liability company name _____ Secretary of State (SOS) file number _____

DBA _____ FEIN _____

Present address - number and street, PO Box, rural route, or PMB no. _____ Ste. no. _____

City _____ State _____ ZIP Code _____

Contact Telephone no. _____ Amount of payment
() _____

If amount of payment is zero, do not mail form } ▶

How to Get California Tax Information

Automated Toll-Free Phone Service

Use our automated toll-free phone service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Call from within the United States (800) 338-0505

Call from outside the United States (916) 845-6600
(not toll-free)

If you need an answer to any of the following questions, call (800) 338-0505, select "Business Entity Information," then "Frequently Asked Questions." Follow the recorded instructions, and enter the three digit code when you are instructed to do so.

750 How do I organize or register a limited liability company (LLC)?

752 What tax forms do I use to file as an LLC?

753 When is the annual tax payment due?

General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 6 p.m. Monday through Friday, except holidays.

From within the United States, call (800) 852-5711

From outside the United States, call (916) 845-6500
(not toll-free)

For federal tax questions

Call the IRS at (800) 829-1040

Assistance for persons with disabilities

The Franchise Tax Board complies with the Americans with Disabilities Act. For persons with hearing or speech impairment please call:

TTY/TDD (800) 822-6268

Asistencia bilingüe en español

Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 6 p.m. lunes a viernes, excepto días festivos.

Dentro de los Estados Unidos, llame al (800) 852-5711

Fuera de los Estados Unidos, llame al (916) 845-6500
(cargos aplican)

Para preguntas sobre impuestos federales,

llame el IRS al (800) 829-1040

Página Electrónica:

www.ftb.ca.gov

Asistencia para personas discapacitadas: Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos o de habla, pueden llamar al (800) 822-6268 con un aparato de telecomunicación TTY/TDD.

Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), your Secretary of State (SOS) file number, your daytime and evening telephone numbers, and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD

PO BOX 942857

SACRAMENTO CA 94257-0040

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. Please do not attach your letter to your California return.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Our Joint Agency Website offers California business tax information and forms for the BOE, EDD, FTB, and IRS at www.taxes.ca.gov.

You can also download, view, and print federal forms and publications from the IRS Website at www.irs.gov.

By phone – Call our automated toll-free phone service at the number listed above and follow the recorded instructions.

By mail – Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT

FRANCHISE TAX BOARD

PO BOX 307

RANCHO CORDOVA CA 95741-0307

In person – Free California tax booklets are provided at many libraries and post offices during the filing season. Most libraries have forms and schedules to photocopy (a nominal fee may apply).

Note: Employees at libraries and post offices cannot provide tax information or assistance.

Your Rights As A Taxpayer

FTB's goals include making certain that your rights are protected so that you have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you request written advice from the FTB on whether a particular transaction is taxable. See "Where To Get Income Tax Forms and Publications," on this page.

